

# ***PATHWAYS TO INCLUSION***

**Transforming Trade Finance through Digitalization**



## Message from ASSOCHAM

Trade finance plays a significant role in promoting cross-border trade as well as driving inclusive growth. The trade finance market continues to respond to global demand dynamics originating from trade flows. It plays a critical role in cross-border and domestic trade facilitation by mitigating counter party risks and streamlining working capital.

During its G20 Presidency, India has the opportunity to further the cause of mutually beneficial, rules-based international trade when the world faces a series of multiple and overlapping political and economic crises. In the current scenario, with major global economies pushing back international trade, their protectionist attitude is allowing major players in Asia to set themselves up as the new champions of globalization and capture the next wave of growth. At the same time, our financial system's ability to finance this trade is equally critical.

The role of the trade finance market is crucial to mitigate supply and payment risks in transactions by involving a third party which creates an inclusive trade ecosystem and is very important to MSMEs, exporters and importers for inclusive growth for the nation. The Government and regulators have taken several initiatives to build trade ties, boost manufacturing, create an enabling infrastructure, digitalize the logistics value chain, etc.

Keeping this imperative in mind, the ASSOCHAM is conducting its 4th National Summit on Trade Finance for Inclusive Growth under the theme of "Advancing Trade Under India's G20 Presidency & Powering Global Recovery".

In this background, ASSOCHAM & Resurgent India have jointly prepared a comprehensive knowledge paper. This report, along with the discussions during the summit, will help the regulators, market participants, government departments and research scholars to develop financial services further. I thank the Knowledge Partner for their valuable contribution and convey my best wishes for the success of the summit.

**Mr. Deepak Sood**

Secretary General  
ASSOCHAM



## Message from RESURGENT INDIA LTD

The trade finance market, sensitive to the fluctuations of global trade, has shown resilience amidst the pandemic-induced downturn and subsequent recovery. However, it faces continued challenges stemming from the complex dynamics of international trade.

In recent years, the Indian government and regulatory bodies have indeed played a significant role in shaping the trade finance landscape in the country. Through various reforms, initiatives, and policy changes, the government has aimed to make trade finance more inclusive, efficient, and digitally driven. Expanding existing platforms, enhancing seamless information exchange among participants in the ecosystem, and digitizing crucial trade documents have helped unlock the vast potential of paperless trade. In these uncertain times, trade participants and finance providers rely on government support to strengthen the Indian economy.

Establishing a cohesive and expansive framework of standardized protocols plays a crucial role in fostering innovation, scalability, and collaboration across the trade value chain. This framework can effectively address the regulatory hurdles faced by MSMEs when seeking access to trade finance. Banks, as the driving force behind inclusive trade finance, must prioritize digitalization, explore alternative credit models, and streamline API integrations.

India's path toward growth and financial inclusion lies in embracing digitization and fostering strong partnerships between banks and FinTech firms. This report sheds light on the trade finance ecosystem in India, foregrounds the challenge its participants contend with, and delves into potential avenues for addressing operational and regulatory hurdles.

**Mr. Jyoti Prakash Gadia**

Managing Director  
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## AN OVERVIEW OF TRADE FINANCE IN INDIA

The objective of trade finance is to mitigate supply and payment risks in transactions by involving a trusted "third party". At its core, trade finance encompasses a diverse range of participants, encompassing not only large conglomerates but also the dynamic network of buyers and suppliers across various scales of enterprises, forming a vibrant tapestry within the trade finance ecosystem.

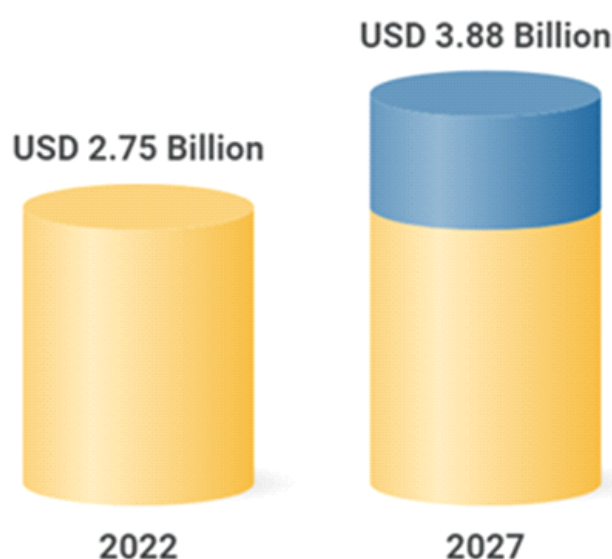
SMEs' struggles revolve around the dearth of viable collateral and established credit history, culminating in a constricted pathway to procuring trade financing facilities. The labyrinthine nature of trade finance transactions further compounds their difficulties, as MSMEs grapple with the documentation protocols and the exigent demands of international trade standards. The perceived amplification of risks associated with engaging with MSMEs worsens their situation, creating a disincentive for financial institutions to provide trade finance solutions to these enterprises, despite their potential for strong economic growth and resilience.

### The current state of trade finance in India:

In April 2023, India's combined merchandise and services exports are estimated to have reached USD 65.02 billion, reflecting a growth rate of 2.00% compared to April 2022. Furthermore, India's total exports are set to reach unprecedented levels, with a projected growth rate of 13.84% for the fiscal year 2022-23 compared to the fiscal year 2021-22, resulting in an export value of USD 770.18 billion. To achieve its goal of becoming a US\$5 trillion economy by FY27, with plans to exceed US\$2 trillion by 2030, the government is reducing trade barriers, building infrastructure, and negotiating Foreign Trade agreements with multiple partners. Additionally, the government aims to expand domestic trade within its demand-driven economy. Although India's exports have had uneven growth in past years, there has been a significant surge since April 2021.

### Indian Trade Finance Market

Market forecast to grow at a CAGR of 7.1%



## Fostering integration through trade agreements:

India's existing trade agreements have resulted in a remarkable growth in merchandise exports. India's merchandise exports increased by 46.53% from USD 228.9 billion in fiscal year 2020-21 (April-January) to USD 335.44 billion in fiscal year 2021-22 (April-January). Specifically, exports to ASEAN and SAFTA countries have seen impressive growth rates of 25.3% and 18.7%, respectively. To expand exports, access cheaper raw materials and capital goods, and attract foreign investment, India has actively negotiated multiple trade agreements with the UAE, Australia, the UK, the EU, Eurasian, and African nations between 2020 and 2022.

## Reducing trade barriers and promoting exports:

To promote exports and improve competitiveness, the government has initiated several programs to ease the setting up of businesses, incentivize manufacturing, and enhance logistical efficiency.

- The Production Linked Incentive (PLI) scheme
- The National Single Window Clearance (NSWS)
- The National Intellectual Property Rights (IPR) policy
- The Pradhan Mantri Gati Shakti National Master Plan
- Multimodal Logistics Parks (MMLP)
- Introduction of the IndiaXports 2021 portal

The trade finance market continues to respond to global demand dynamics originating from trade flows. After a dip in the overall market during the pandemic, it has recovered but is likely to face continued headwinds on account of the global trade dynamics outlined in the earlier section. Trade finance instruments play a critical role in cross-border and domestic trade facilitation by mitigating counterparty risks and streamlining working capital.

## Trade finance solutions: Broad categories

**i. Open Account** – It entails direct transactions between buyer and seller, with goods delivered before payment within a specified period. This is convenient but carries a high risk for the seller.

**ii. Documentary Trade** – It includes letters of credit, bank guarantees, and other forms of financing where intermediaries assume risks in case of non-adherence to agreements. The exporter is paid upon presenting documents conforming to agreed terms.

**iii. Supply Chain Finance (SCF)** – It is a form of financing for open account trade that helps buyers and sellers maximize their working capital by lowering the risk of disruption in the supply chain. SCF includes factoring, forfeiting, reverse factoring, dynamic discounting, and pre-shipment financing.

Over the last few years, global supply chain financing volumes have grown substantially on the back of a confluence of variables, including greater emphasis on working capital, structural adjustments to SME financing, a deliberate shift towards digital adoption, increased transparency, and the growing importance

of sustainability in the financing, back by a low default rate of 0.13 percent.

Though SCF has picked up in India in recent times, traditional trade products continue to have a disproportionately higher share compared with other large economies. SCF is now fast-growing, with participants actively working towards stitching end-to-end supply chain propositions and bringing efficiency to processes and working capital cycles. Even with the changing face of the trade finance market structure, driving inclusion continues to be a major challenge in this space. The financing gap has increased from US\$1.5 trillion in 2018 to US\$1.7 trillion in 2020–24. Globally, MSMEs are at the center of this gap and account for 23 percent of the total trade finance demand, yet they are responsible for 40 percent of the trade financing application rejections.

### Trends in trade finance:

As the impact of the pandemic recedes, new challenges are emerging. The growing focus on environmental, social and governance (ESG) is forcing businesses to contend with climate-friendly and ethical social practices, alongside a move to reduce the trade financing gap for small and medium-sized enterprises (SMEs). At the same time, global headwinds continue to apply external pressure—meaning this could be a make-or-break moment for supply chains and their financing.

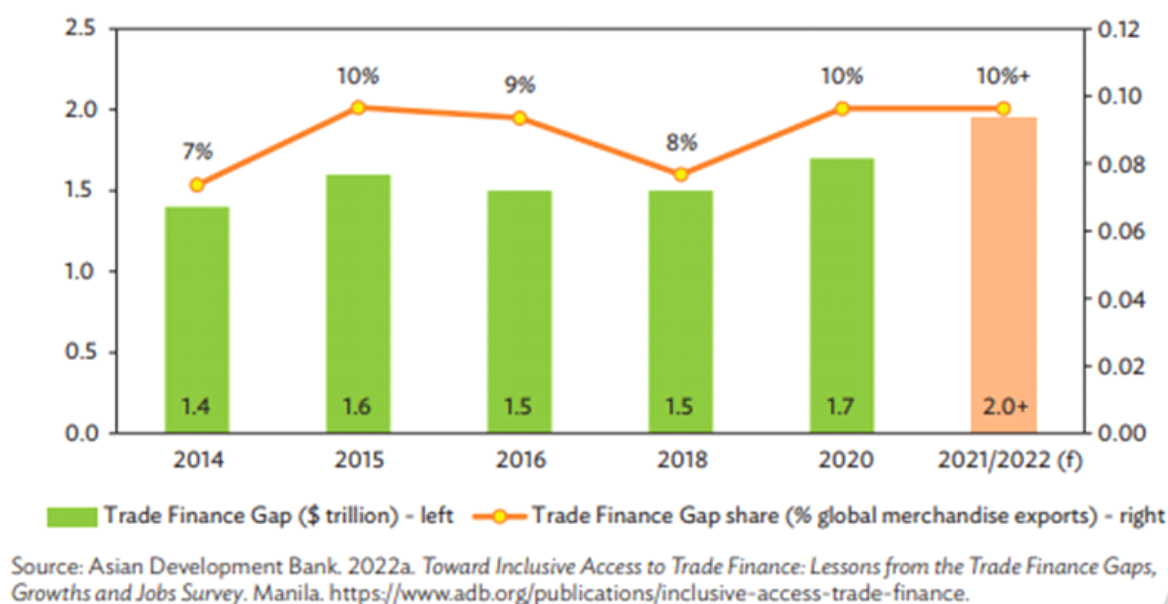


Figure : Trend of the Trade Finance Gap

Enabling global trade is trade finance, which ensures importers receive goods and exporters receive payments. However, the export-import-banking ecosystem is complex and involves multiple parties in a single transaction.

Amid geopolitical shocks, issues with inflation, a diminished workforce and evolving regulatory requirements, a key question remains: How can businesses not only survive but thrive, in a fragmented trade finance ecosystem? To address these challenges effectively, the trade finance industry can undergo transformative changes on multiple fronts to stay in sync with the evolving landscape:

## Fintech Integration and Future Growth

Collaboration between banks and fintech will be essential for future growth as the trade finance industry continues its digitization efforts. Many banks are still in the early stages of their digital journey for trade finance and lack the necessary resources to experiment with new technologies. This is where fintech can play a critical role in connecting traditional architectures with external data flows to streamline workflows and drive efficiencies, ultimately creating value for clients.

## Supply chain transparency

Supply chain transparency is no longer a choice but a necessity for companies. Consumers expect companies to uphold ethical and sustainable practices, and they are willing to switch to brands that provide greater transparency in their operations. By providing transparency in sourcing, production, logistics, costs, and accounting, companies can create a more robust, sustainable, and efficient supply chain. Enhanced visibility can help identify potential inefficiencies and bottlenecks, which could then be optimized for better resource utilization. A transparent supply chain can also help identify the environmental and social impacts of business operations, paving the way for improvements that could contribute to a more sustainable future.

As consumers' demand for sustainable products grows, companies are recognizing the importance of ethical sourcing, climate-smart supply chain planning, and green logistics. This shift towards environmental and social responsibility is not only beneficial for the planet but also necessary to meet changing consumer demands. Trade finance can play a significant role in encouraging climate-conscious supply chains by offering incentives, such as modifications in pricing, for those who engage in environmental best practices. This trend is expected to continue, making sustainability an essential consideration for companies in the trade industry.

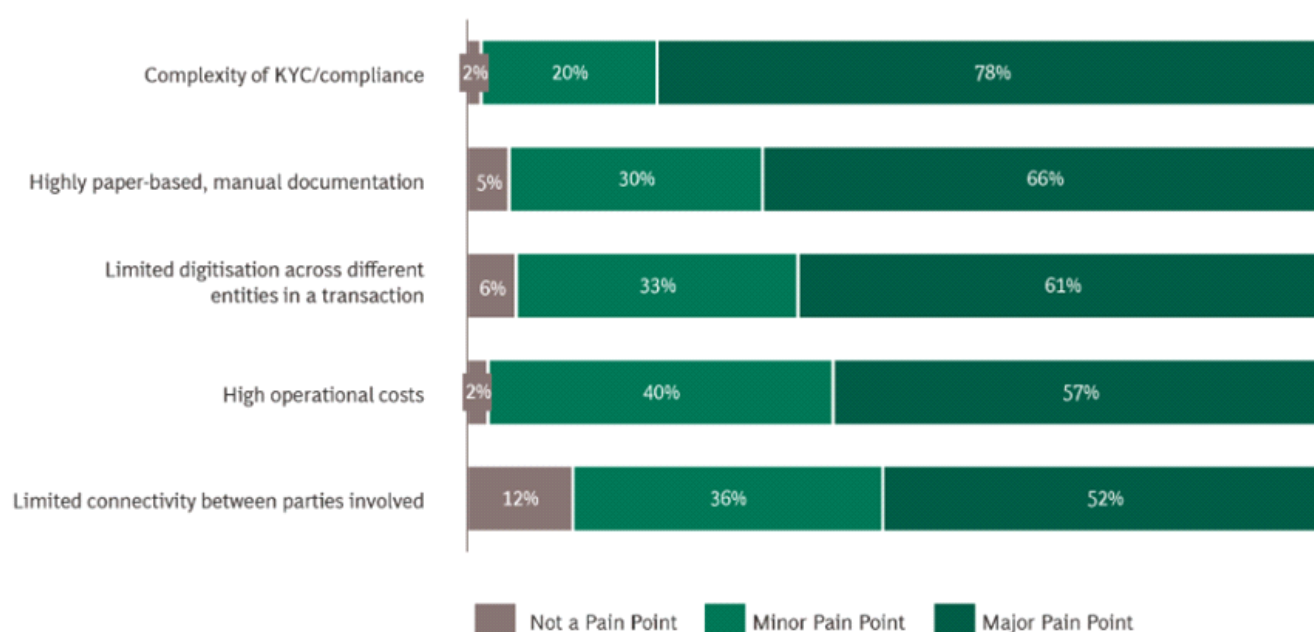


## UNLOCKING TRADE FINANCE FOR SMEs

The trade finance gap disproportionately affects SMEs and least developed countries, which are vital drivers of economic growth and development. Remarkably, despite their sizable number, SMEs account for a meager 41% of trade finance requests. Moreover, their significance is underscored by the fact that they contributed to 52% of trade finance in past years.

Gaining access to trade finance from banks presents formidable challenges for small, and medium enterprises endeavoring to ramp up their exports. The mere acquisition of an export order does not guarantee entry into the realm of trade finance, since banks, adhering to established conventions of assessing working capital, meticulously scrutinize multiple facets such as the financial health revealed by SMEs' balance sheets, credit reports, prospective strategies, and the availability of collateral. This rigorous lending framework, particularly applied to non-Letter of Credit (LC) export orders, classifies MSMEs as high-risk entities. This classification can lead to the discouraging rejection of their trade finance requests.

Banks' Views



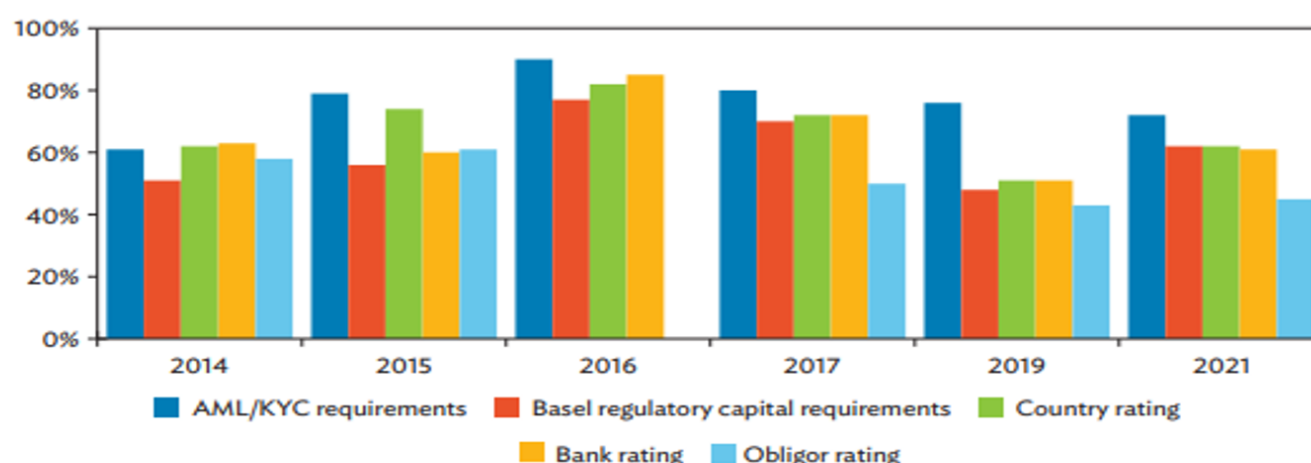
The pursuit of alternative funding channels or the identification of amenable banks willing to extend trade finance assumes a formidable nature, given the scarcity of viable banking alternatives and the paucity of supplementary funding options. Consequently, some MSMEs, driven by the exigency of export orders, resort to recourse that is both financially onerous and outside the purview of established banking channels, entailing transactions with informal fund providers.

The increasing complexity and labor-intensive nature of compliance and regulatory checks have driven up costs for banks. As a result, banks have become more selective in the markets, customers, and geographies they operate in, further exacerbating the challenges faced by SMEs and emerging economies in accessing trade finance.



**Even when MSMEs secure export orders backed by Letters of Credit (LC), there is no guarantee of obtaining timely trade finance. Pre-shipment funding, required for procuring raw materials or stocks to fulfil export orders under LC, is subject to traditional working capital assessments.** Therefore, for first-time MSME exporters, merely obtaining an export order supported by an LC, whether sight or usance, does not suffice to secure pre-shipment finance unless bolstered by a large balance sheet and collateral. Post-shipment funding hinges on various factors, including the reputation of the LC issuing bank, the country risk of the importer, and the importer's past track record. Immediate upfront funding is typically unavailable for export documents under sight LC, as the documents are usually sent on a collection basis, and exporters receive payment when the issuing bank remits the funds. In cases where local reputable banks add confirmation to the Export LC, upfront funding becomes accessible to the exporter upon presenting compliant documents. However, it is challenging for many MSMEs to dictate the terms of the export LC and obtain confirmation from local banks. Efforts to address this trade finance deficit must encompass various strategies. Larger banks need to intensify their distribution efforts to facilitate capital availability, and multilateral institutions must augment their support by providing guarantees to smaller local and regional banks that directly cater to SMEs. The limited availability of capital often compels credit departments to allocate resources to less "risky" deals.

*Figure: Top Impediments to Trade Finance Provision*



AML/KYC = anti-money laundering/know-your-customer.

Source: Asian Development Bank. 2022a. *Toward Inclusive Access to Trade Finance: Lessons from the Trade Finance Gaps, Growths, and Jobs Survey*. Manila. <https://www.adb.org/publications/inclusive-access-trade-finance>.

## DIGITIZATION AND REGULATORY REFORMS

The exorbitant cost of compliance presents a significant barrier to accessing trade finance, particularly for SMEs, hindering their growth and competitiveness. While regulatory requirements are vital for transparency and risk mitigation, the financial burden imposed by compliance expenses, including direct and indirect costs, poses formidable challenges. To address this issue, proactive strategies such as streamlining regulatory processes, embracing digitalization, and fostering collaboration between regulatory authorities and industry players are crucial. These measures can reduce compliance costs, enhance efficiency, and create a more conducive environment for trade finance, empowering SMEs and driving economic growth. Regulatory requirements such as KYC and AML raise the cost of banks in providing loans and cause them to reject applications or terminate correspondent banking relationships. Basel capital requirements also limit trade finance allocation. In 2021, more than 70% of banks considered AML/KYC requirements the biggest hindrance to trade finance and around 60%, the Basel requirements. These regulations require banks to make significant investments in sophisticated systems and robust procedures to mitigate the risks of money laundering and ensure compliance.

As banks strive to meet these compliance obligations, they must allocate significant financial and human resources to adhere to the ever-evolving regulatory landscape, impacting their operational efficiency and profitability. This, in turn, may result in higher costs for MSMEs that rely on trade finance from banks. The high compliance costs faced by banks and trade finance providers can limit their ability to provide trade finance to MSMEs, thereby hindering the access of MSMEs to crucial funding for their import and export activities.

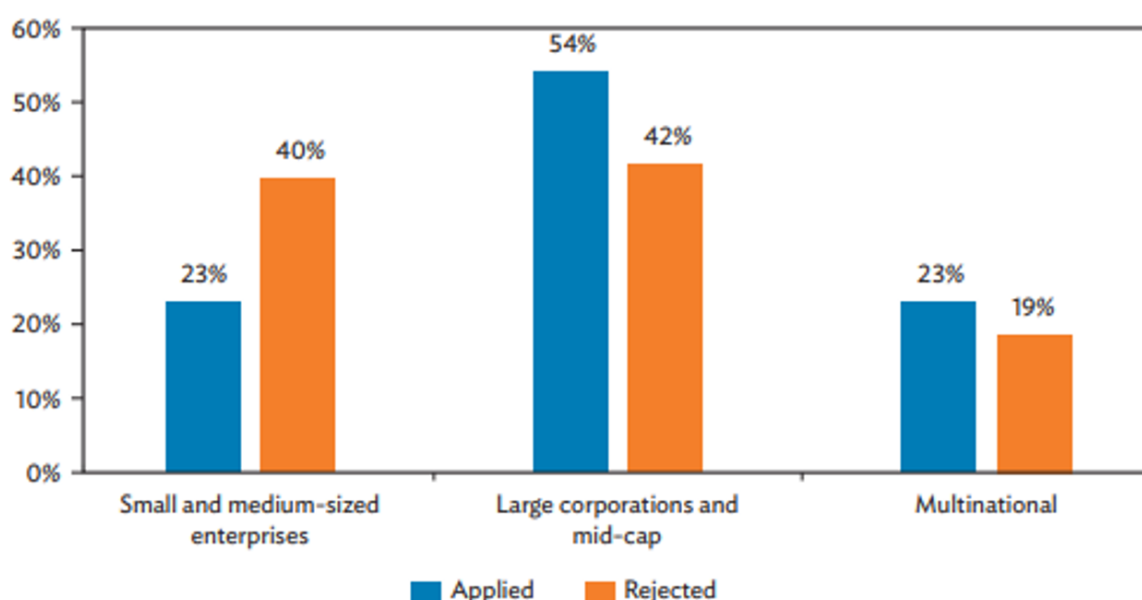
**Recent data reveals that up to 30% of banks' trade operations capacity is dedicated to manual reviews for compliance purposes. Trade transactions often undergo compliance reviews multiple times throughout their lifecycle, typically 2 to 4 times.** For instance, an Export Letter of Credit requires review upon receipt, review again when associated documents are collected and amended, and another review when payments are requested or received. The need to source accurate customer information further compounds the challenges faced by banks in safely expanding their trade finance business while meeting increasingly stringent regulatory requirements.

Tight international guidelines and high fines imposed by authorities on non-compliance with AML/KYC by banks have heightened the perception that while these requirements mitigate trade finance risks, they can compound the trade finance gap and keep liquidity away from regions that need it most.





*Figure: Share of Rejections in Trade Finance by Firm Size*



Source: ADB. 2021 Trade Finance Gaps, Growth and Jobs Survey—Banks. Cited in Kim et. al. 2021. Trade Finance Gaps, Growth, and Jobs Survey. ADB Briefs. No. 192. October 2021. Manila. <http://dx.doi.org/10.22617/BRF210379-2>.

Basel requirements, on the other hand, mandate banks to hold more capital on their balance sheets, which induce banks to lend selectively and only to highest-rated borrowers.

The lack of consistency and clarity in regulatory and tariff policies creates a challenging environment that hampers trade finance activities. Exporters and investors face difficulties in effectively planning their ventures, as they are often met with unexpected policy shifts or unclear guidelines. The resulting uncertainty undermines confidence and trust in the trade ecosystem, impeding the flow of finance and inhibiting growth. To foster a conducive environment for trade finance, there is a pressing need for transparent and predictable regulatory frameworks that provide clear guidelines and stability.

Regulatory reforms in India have ushered in a new era for trade finance, yet their impact on the industry is not without challenges. Recent reforms have introduced additional regulatory requirements, affecting a substantial portion of import loans and export credit. These changes potentially introduce complexity and slowdowns in financing processes, posing hurdles for businesses navigating the trade finance landscape. Stringent regulatory and financial crime compliance measures, such as Basel III; the adoption of the principle of Dodd-Frank; the Foreign Account Tax Compliance Act (FATCA); and Anti-Money Laundering (AML) regulations; impose substantial burdens on banks. These regulations necessitate significant investments in sophisticated systems and robust procedures to mitigate the risks of money laundering. Ensuring compliance with these requirements becomes a crucial priority for banks, driving up costs within the industry. As banks strive to meet these stringent compliance obligations, they need to allocate significant resources, both financial and human, to adhere to the ever-evolving regulatory landscape, thereby affecting their operational efficiency and profitability.

Forging robust collaborations among government bodies and regulatory authorities emerges as an indispensable catalyst for propelling inclusive growth and fostering comprehensive financial inclusion

among all stakeholders. By embracing these transformative measures, India can unlock the transformative potential of trade finance, fostering an environment conducive to sustainable economic development and prosperity.

## Potential avenues

Creating a unified and extensive framework for standard protocols is key to encouraging innovation, scalability, and cooperation within the trade value chain, which can address the regulatory challenges faced by MSMEs in accessing trade finance. The digitization initiatives of the Indian government, along with emerging technologies such as IoT and AI/ML, have led to a rapid progress in the sector.

However, due to a lack of policy or governance framework overseeing these disruptions, the innovation has been uncontrolled and experimental. To fully exploit the possibilities of these technologies, it is vital to develop a comprehensive framework that endorses universal standards and protocols. This will allow seamless integration and cooperation across the trade ecosystem, potentially easing regulatory pressures on MSMEs and improving their access to trade finance.

Acknowledging the significant disruptions in the global trade value chain, the World Trade Organization (WTO) recognizes the potential long-term consequences of unregulated innovation. To address this, the WTO has offered guidance and suggestions to governments, aiding them in formulating regulations and policy changes. These inputs serve as valuable directions for governments to navigate the complex landscape of trade innovation and ensure that appropriate regulations are put in place to balance innovation and sustainable growth.

The establishment of a comprehensive framework for building digital infrastructure and ensuring data connectivity is essential to align with global standards and cybersecurity principles. This framework should encompass the creation of a robust foundation for digital systems and networks, which serves as a fundamental pillar in facilitating frictionless trade transactions. By developing a resilient digital infrastructure framework, trade processes can be seamlessly integrated and supported, resulting in enhanced efficiency and effectiveness in global trade operations. Moreover, prioritizing data connectivity that adheres to globally recognized standards and cybersecurity principles guarantees the secure and reliable exchange of information across trade networks, safeguarding sensitive data and mitigating potential cyber threats.

***The formulation of comprehensive legal frameworks that grant global recognition to electronic documentation, including e-signatures and transactions, would be central to facilitating seamless digital trade.*** By enacting such legal frameworks, businesses and individuals engaging in digital trade can operate with confidence, knowing that their electronic documents and transactions carry legal weight and recognition worldwide. This will promote the adoption of standardized and secure digital trade practices, fostering trust and efficiency in cross-border transactions.

The development of a data model framework is essential to enable interoperability among various digital platforms in the context of cross-border trade. This framework plays a crucial role in facilitating the seamless exchange of data and documents across different platforms while prioritising data identity and privacy protection. By implementing this framework, businesses and stakeholders involved in digital trade can ensure that data can be shared and accessed seamlessly, regardless of the platform used.

Similarly, the implementation of a liability framework is necessary for establishing traceability and accountability at the endpoint within the intricate ecosystem involving multiple players, digital platforms, and government authorities in digital trade. This framework plays a vital role in clearly defining responsibilities and obligations among the various entities involved, thereby mitigating risks and disputes. By introducing this framework, a transparent system is created where all parties are held accountable for their actions, ensuring that potential issues are addressed promptly and effectively. Moreover, the liability framework would foster a culture of trust and reliability within the digital trade ecosystem, promoting smoother collaborations and reducing the likelihood of conflicts or misunderstandings. Ultimately, this framework would contribute to the overall stability and integrity of digital trade operations.

Enabling a robust legal framework that establishes the authenticity and recognition of digital identity is crucial for both legal and natural individuals, as well as physical and digital objects generated by IoT devices, within the context of trade transactions. This framework plays a pivotal role in ensuring that digital identities are trusted and can be legally acknowledged. By implementing this framework, trade participants can have confidence in the validity and reliability of digital identities, mitigating the risks associated with identity fraud and unauthorized access. Moreover, this legal framework fosters a secure environment where digital identities are legally recognized, promoting transparency and accountability in trade transactions. By establishing the authenticity and recognition of digital identities, the framework enables seamless and trusted interactions in the digital trade ecosystem, enhancing efficiency and fostering a trustworthy environment for all stakeholders involved.

Addressing these elements in a coordinated and comprehensive manner would enable the cultivation of a digital trade environment that promotes interoperability, security, and legal recognition. This will support the seamless flow of global trade while upholding privacy, authenticity, and accountability throughout the digital ecosystem.

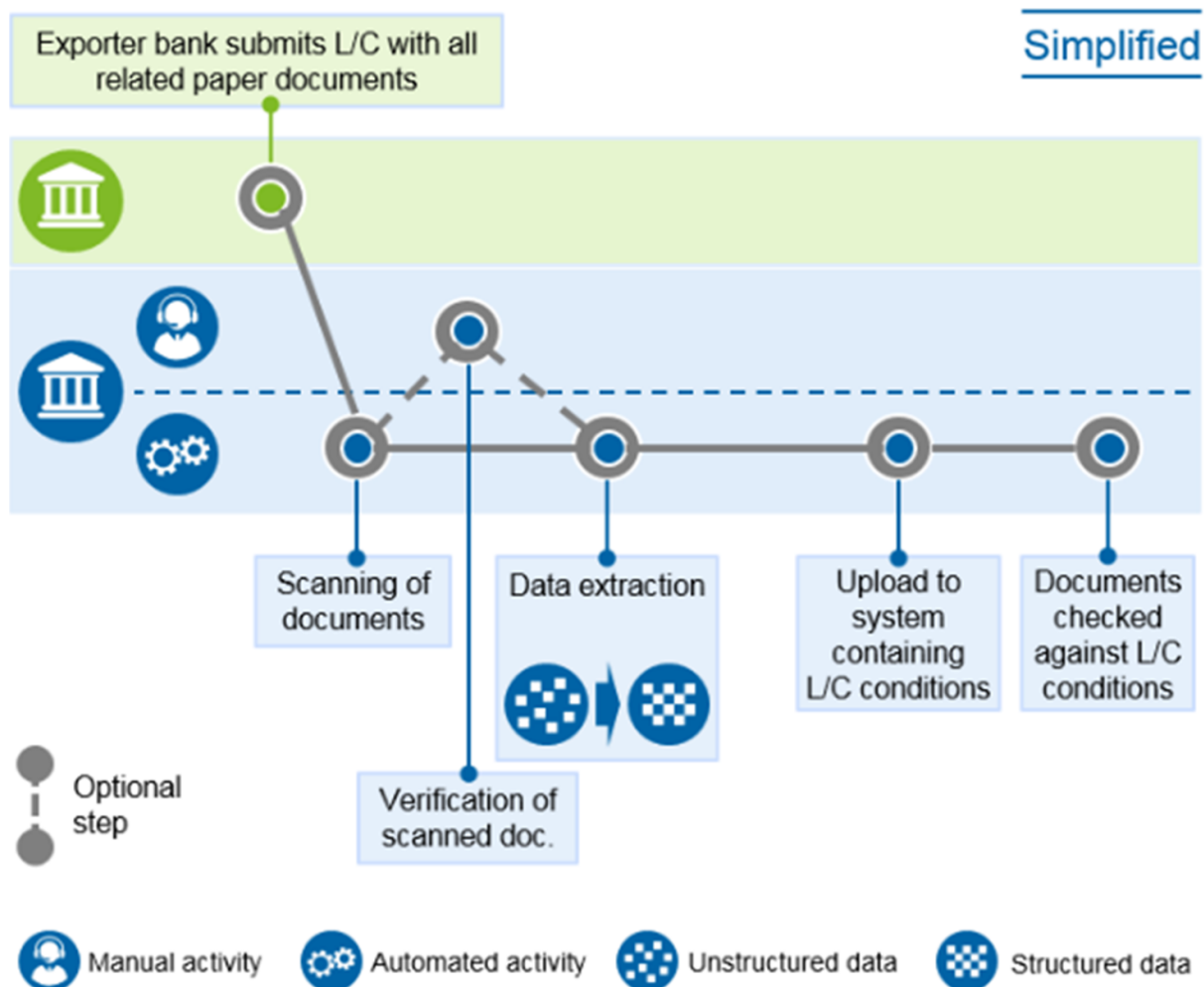


## INNOVATIONS IN FINANCING AND RISK MITIGATION

A global and collaborative effort is crucial to address trade finance gaps, promote digitalization, and establish common standards. This would contribute to sustainable economic recovery and inclusive trade participation. Governments and multilateral institutions should provide sector-specific support to facilitate funding for underserved segments such as micro, small, and medium-sized enterprises (MSMEs) and women entrepreneurs. This support can encourage their involvement in trade and create an enabling business environment for private finance providers to extend loans.

Digitalization plays a significant role in reducing information asymmetry between borrowers and lenders, thereby lowering information and finance provision costs for both parties. However, the development of disparate systems hinders the potential for creating a seamless global system. International coordination is necessary to establish common standards and protocols. Multilateral institutions can play a crucial role in supporting and enabling developing economies to build the required infrastructure and acquire the necessary expertise.

Banks need to integrate incoming channels for omnichannel origination through web portals, SWIFT, and branches. Leveraging capabilities like auto doc-check of documents for conformity to various guidelines will help banks eradicate manual touch points from trade processes and accelerate the complete process.



***One tool that may help in this realm is a digital identification system for companies that permits a legal entity to be identified quickly and unambiguously; Such a tool would underpin a global digital identity system. Without a global digital identification system, finding information about an MSME in a sea of metadata is difficult, if not impossible. Such a system would increase transparency and underpin the advantages offered by fintech, allowing greater inclusion of MSMEs in the global economy by facilitating customer onboarding, credit approval processes, and the identity validation of potential clients.*** It would also increase access to finance for MSMEs in emerging markets by making the flow of reliable information about small companies easier.

Enhancing the participation of MSMEs in global value chains is crucial to unlocking new productivity and inclusive growth. The rise of value chains and e-commerce offers opportunities for MSMEs to engage in international trade and contribute more to economies. This needs to be done by directly exporting intermediate goods, services, or supply inputs to local or multinational firms (forward linkages), or by using imported inputs in their production through backward linkages. Moreover, e-commerce can add to opportunities for MSMEs by providing platforms for sales, marketing, payments, and financial access.

Integrating a comprehensive trade finance platform, adept at harnessing customers' accounting data and contemporaneous company information encompassing business particulars, addresses, contact numbers, credit risk evaluations, intricate legal entity relationships, and ownership structures, fortified by embedded analytical prowess and vigilant monitoring capabilities, can empower banks to expedite and astutely undertake lending decisions.

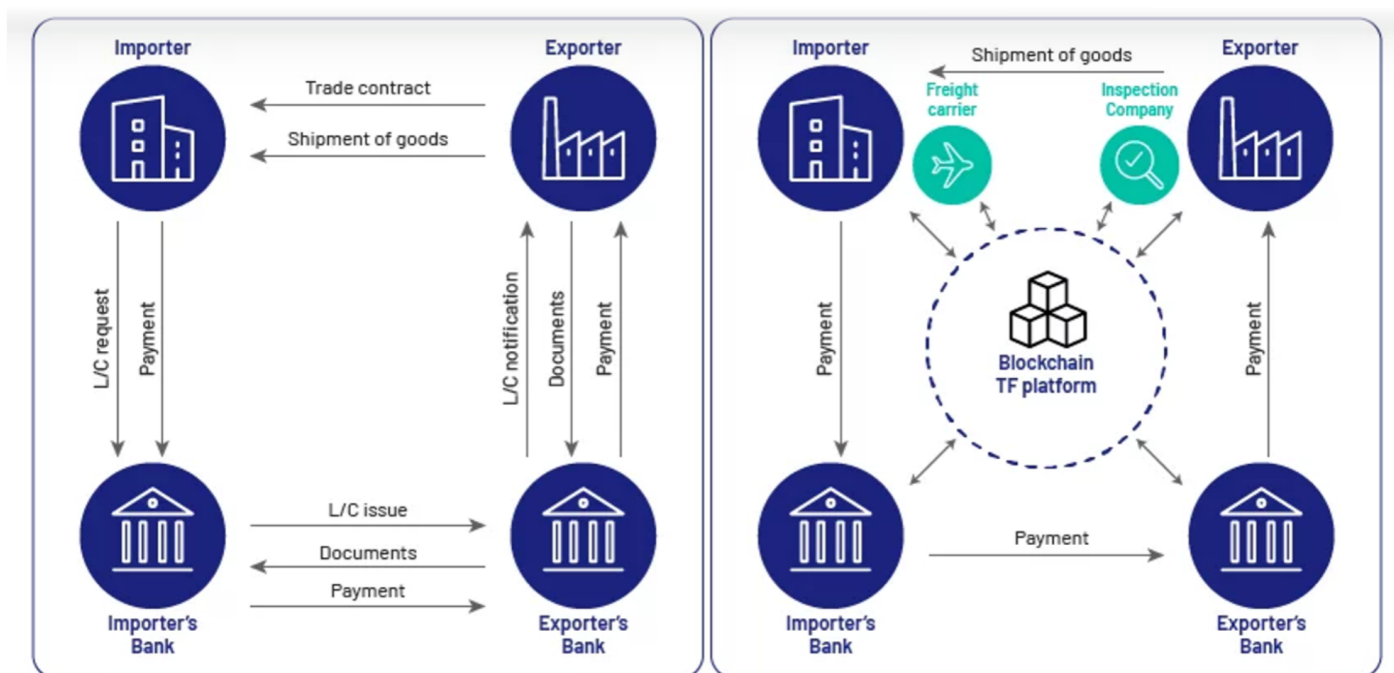
Harnessing technological innovation is imperative in rectifying inefficiencies within supply chain finance (SCF) and constructing cohesive, integrated solutions. By capitalizing on advancements such as artificial intelligence, blockchain, and data analytics, organizations can streamline SCF processes, imbuing them with heightened efficiency and mitigating manual errors. These cutting-edge technologies facilitate real-time data sharing, secure transactional operations, and the execution of intelligent contracts, engendering transparency, trust, and seamless collaboration amidst supply chain counterparts.

Integrated solutions that interconnect stakeholders encompassing buyers, suppliers, financiers, and logistics providers bestow optimized working capital management, risk mitigation, and a fresh landscape for value generation. Embracing these innovative technologies in SCF has the capacity to metamorphose conventional practices and propel sustainable growth within the interwoven tapestry of the global marketplace.



## LEVERAGING TECHNOLOGY TO IMPROVE ACCESSIBILITY AND EFFICIENCY

The digital transformation of trade finance is driven by the goal of creating streamlined and integrated processes that result in cost optimization, operational efficiency, and an enhanced customer experience. Rule-based workflow engines need to be implemented to automate and standardize processes, ensuring the consistent and efficient handling of trade finance transactions. Optical Character Recognition (OCR) technology can be employed to convert physical documents into digital format, enabling faster processing and reducing the risk of errors. In like manner, robotic process automation (RPA) can automate repetitive manual tasks, freeing up human resources for more value-added activities. These automation technologies not only increase efficiency but also contribute to cost reduction and improved accuracy in trade finance processes.



Data-driven insights play a crucial role in optimizing trade finance operations. Banks need to leverage analytics to gain valuable insights into transaction patterns, risk profiles, and customer behavior. Advanced analytics techniques, such as predictive analytics and machine learning, can help identify trends, detect anomalies, and make data-driven decisions. This will help empower banks to enhance risk assessment, fraud detection, and decision-making processes. Analytics also enables banks to offer personalized and tailored services to their customers, resulting in a superior customer experience.

To achieve end-to-end digitization, it is essential to integrate various systems and processes within the trade finance ecosystem. This integration can be achieved through the implementation of Application Programming Interfaces (APIs), which enable seamless data exchange and interoperability between different platforms and systems. By integrating trade finance systems with other banking systems, such as core banking and customer relationship management (CRM) systems, banks can create a unified view of

customer data, streamline processes, and provide a more holistic customer experience. Integration also facilitates real-time data sharing and collaboration between different stakeholders, such as banks, exporters, importers, and logistics providers, leading to faster and more efficient trade finance processes.

## **Advancing Digitization of Trade Finance**

The trade finance industry has made progress in embracing digital solutions, but there is still ample room for further growth. Embracing digital transformation is crucial for the industry to move forward and enhance efficiency.

### **1. Rise of Digital Assets in Trade Finance:**

The growing interest in digital assets extends to the trade finance industry. Trade finance processes, like letters of credit (Lcs), need to be digitized through tokenization and smart contracts, making trade finance more efficient. Furthermore, tokenized digital assets can represent bank risk, promoting inclusivity and enabling smaller transactions for SMEs and local banks.

### **2. Internet of Things (IoT):**

The integration of IoT devices in trade finance provides real-time information about documents and goods involved in trade transactions. IoT sensors and devices enable continuous monitoring of shipment status, location tracking, and condition monitoring of goods. This real-time data enhances visibility, reduces risks associated with supply chain disruptions, and enables proactive decision-making.

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### **3. Artificial Intelligence (AI) and Machine Learning (ML) with Natural Language Processing (NLP):**

AI, ML, and NLP technologies empower trade finance by automating scrutiny checks, compliance-related tasks, and document analysis. AI/ML models can analyze large volumes of data, identify patterns, and detect anomalies, enabling efficient documentary and compliance checks. NLP-based rule engines can extract meaning from unstructured data, such as legal contracts or trade agreements, facilitating contract management and risk assessment.

### **4. Advanced Analytics:**

Advanced analytics techniques, including predictive analytics, are increasingly utilized in trade finance to enhance decision-making processes. Pre-transaction scrutiny, such as Know Your Customer (KYC) checks, can be optimized using advanced analytics to assess the risk profile of potential counterparties. Transaction processing benefits from predictive analytics, which detect patterns and anomalies in trade data, enabling fraud detection and improving operational efficiency.

## 5. Collaboration:

While automation streamlines internal processes, financial institutions must collaborate with ecosystem players to create a digital customer experience. Partnerships with trade focused FinTechs enable end-to-end digital solutions, including KYC, credit processing, and early warning signal identification. Leading banks in India have partnered with FinTechs to offer tailored MSME solutions, facilitating access to financing. Inclusive trade finance will thrive through collaboration rather than competition.

## 6. Omni-channel experience:

As backend processes are digitalized and efficiency is increased through collaboration, providing a unified customer experience becomes crucial. Financial institutions are developing singular platforms that serve as one-stop solutions for MSME customers, offering integrated experiences across channels. Customers can seamlessly transition from mobile apps to Internet banking, accessing consolidated dashboards. This approach benefits both financiers and MSMEs. To enable digitalization across these levers, banks need to transform their IT architecture from legacy point solutions to nimbler, microservices-led approaches. Scalable, agile, and robust technology landscapes are essential. Banks must evaluate build vs. buy decisions to implement these platforms, aligning with their vision and strategy.





## **Digitalization can boost the fight against trade-based money laundering.**

The digitalization of SMEs provides banks with an opportunity to leverage the vast amounts of data generated through digital customer interactions. This data can be used to gain deeper insights into SME clients and to enhance monitoring capabilities for detecting suspicious activities related to financial crime. Fintech innovations further contribute to the availability of customer data, including accounting information, optical character recognition of paper documents, and specialized databases that provide detailed company information and ownership structures.

Access to this rich data not only strengthens the fight against financial crime but also enables banks to achieve more precise customer segmentation and a better understanding of risk concentration.

***According to EY's global SME survey, a large majority of SMEs express interest in sharing necessary information with their primary financial services provider to foster a mutually beneficial and profitable relationship.***

During the initial phase of transformation, banks should prioritize digitizing their trade finance processes and moving away from paper-based operations. By establishing a robust data platform capable of handling both structured and unstructured data, banks can lay the foundation for driving efficiencies through advanced analytics and artificial intelligence (AI). AI technologies can automate compliance processes, detect trade-based money laundering (TBML) red flags, enhance export and import controls, identify dual-use and embargoed goods, check sanctions, and detect fraud. Customer activity monitoring can help profile entities, prioritize alerts for investigation, and automate the alert triage process.

Strategic adoption of technology can help transform testing, risk governance models, regulatory compliance, anti-money laundering policies, and change control procedures. Through automated analysis and monitoring, banks can enhance TBML detection and make faster, more informed lending decisions. Prudent integration of fintech solutions will go a long way in enabling access to expanded information, including clients' accounting data, digitized paper submissions, and up-to-date company information such as global identification, business details, contact information, credit risk scores, and records on complex legal entity relationships and ownership structures.

## **ABOUT ASSOCHAM**

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest apex chamber. It brings in actionable insights to strengthen the Indian ecosystem, leveraging its network of more than 4,50,000 members, of which MSMEs represent a large segment. With a strong presence in states, and key cities globally, ASSOCHAM also has more than 400 associations, federations, and regional chambers in its fold.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. The Chamber is an agile and forward-looking institution, leading various initiatives to enhance the global competitiveness of the Indian industry, while strengthening the domestic ecosystem.

With more than 100 national and regional sector councils, ASSOCHAM is an impactful representative of the Indian industry. These Councils are led by well-known industry leaders, academicians, economists and independent professionals. The Chamber focuses on aligning critical needs and interests of the industry with the growth aspirations of the nation.

ASSOCHAM is driving four strategic priorities – Sustainability, Empowerment, Entrepreneurship and Digitisation. The Chamber believes that affirmative action in these areas would help drive an inclusive and sustainable socio-economic growth for the country.

ASSOCHAM is working hand in hand with the government, regulators, and national and international think tanks to contribute to the policy making process and share vital feedback on implementation of decisions of far-reaching consequences. In line with its focus on being future-ready, the Chamber is building a strong network of knowledge architects. Thus, ASSOCHAM is all set to redefine the dynamics of growth and development in the technology-driven 'Knowledge-Based Economy'. The Chamber aims to empower stakeholders in the Indian economy by inculcating knowledge that will be the catalyst of growth in the dynamic global environment.

The Chamber also supports civil society through citizenship programmes, to drive inclusive development. ASSOCHAM's member network leads initiatives in various segments such as empowerment, healthcare, education and skilling, hygiene, affirmative action, road safety, livelihood, life skills, sustainability, to name a few.

## ***ABOUT RESURGENT INDIA LTD***

Resurgent India Ltd, a prominent merchant banking institution, is among the largest in India and has a widespread presence across the country. We have meticulously assembled a talented cohort of over 300 professionals, strategically positioned on the ground, to serve a diverse range of businesses.

We act as a one-stop shop for assorted merchant banking services. Our services run the gamut from debt syndication to legal services – Resurgent India Ltd. has spearheaded a 360-degree solution for Indian businesses. As a Category 1 merchant banker, our offerings cover mergers and acquisitions, private equity and NBFCs, debt solutions, structured finance, capital market solutions, transaction advisory, valuations, government advisory, ASM, TEV & LIE, stressed asset resolution, corporate and commercial law, insolvency and bankruptcy, fintech solutions, training and a few other areas.

At the core of our organisation lies a seasoned and accomplished leadership team, armed with an intricate understanding of pivotal business drivers. Our strength comes from deep and wide-ranging domain expertise, an unmatched ability to navigate innovative capital syndication channels, exceptional transaction execution skills, and established connections with top-tier private equity funds, banks, and several other financial institutions.

We are available to assist you with any of the services mentioned above—contact us for more details.

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## **PAN INDIA PRESENCE**

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● LUDHIANA

● JAIPUR

● UDAIPUR

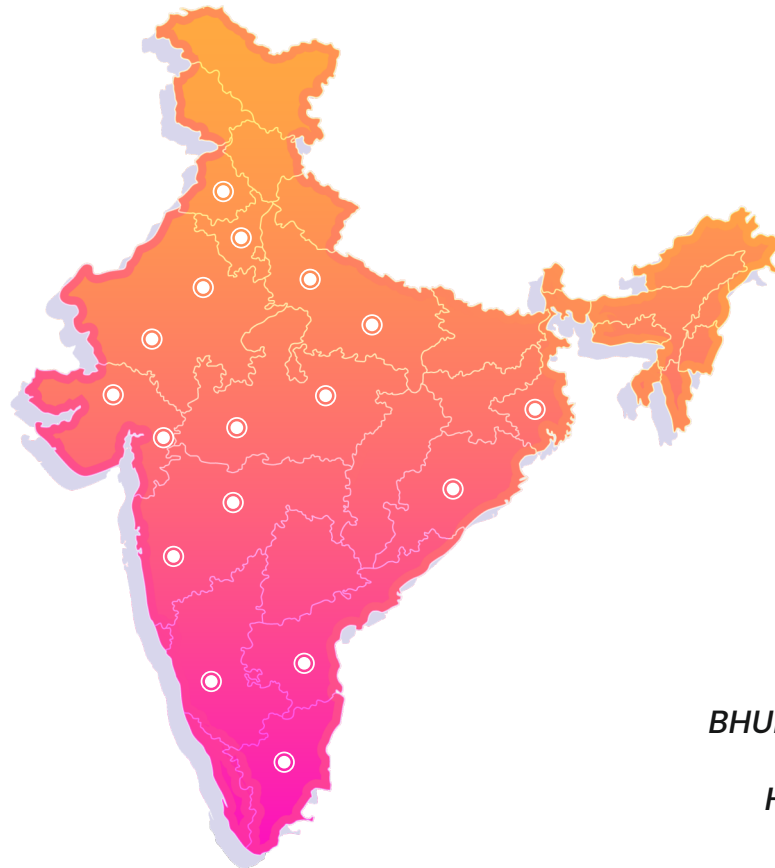
● AHMEDABAD

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LUCKNOW ●

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## **RESURGENT INDIA LTD.**

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