CREATING A MODERN DIGITAL TRADE ECOSYSTEM

The economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferrable Records (MLETR)

UNITED KINGDOM
INTERNATIONAL
CHAMBER OF COMMERCE
The world business organization

coriolis®

EXECUTIVE SUMMARY

Modernising laws will unleash SME growth

Digitising transferrable documents will:

1. Generate **£25 billion** in new economic growth - **25%** extra SME trade by 2024
2. Reduce the number of days needed for processing documents by up to **75%**
3. Free up **£224 billion** in efficiency savings which can be recycled into the real economy
    - **£171 billion** from bills of lading
    - **£26 billion** from bills of exchange
    - **£27 billion** from promissory notes
4. Generate **£1 billion** to tackle the trade finance gap

The use of paper-based processes places an extraordinary burden on SMEs seeking to trade internationally

- For SMEs, there will be a **35% improvement** in business efficiency and 13% increase in international business if trade is digital.
- **92% of respondents** said digitization will speed up trade finance processes.
- Legal reform will position the UK as the first G7 economy to align to MLETR enabling it to build modern trade corridors with other forward-looking economies.

ICC is calling on national governments to digitise trade documentation and align legal frameworks to the UNCITRAL Model Law on Transferrable Records [MLETR].

The International Chamber of Commerce, G7 and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) are calling on national governments to digitise trade documentation and align legal frameworks.

The trading system operates on antiquated systems and laws often dating back centuries. Today, four billion paper-based documents float through the system at any given time creating inefficiencies that slow trade down and hamper growth and innovation.

By reforming and aligning legal frameworks we can create a modern trading environment to underpin the economic recovery. An environment that is simpler, where processes and systems talk to each other, trade happens in hours, not weeks and months and where costs are lower, especially for SMEs.

The way to achieve this is to reform national laws and align them with the UNCITRAL Model Law on Electronic Transferrable Records [MLETR].

This business case was commissioned by ICC United Kingdom to set out the economic case for legal reform.

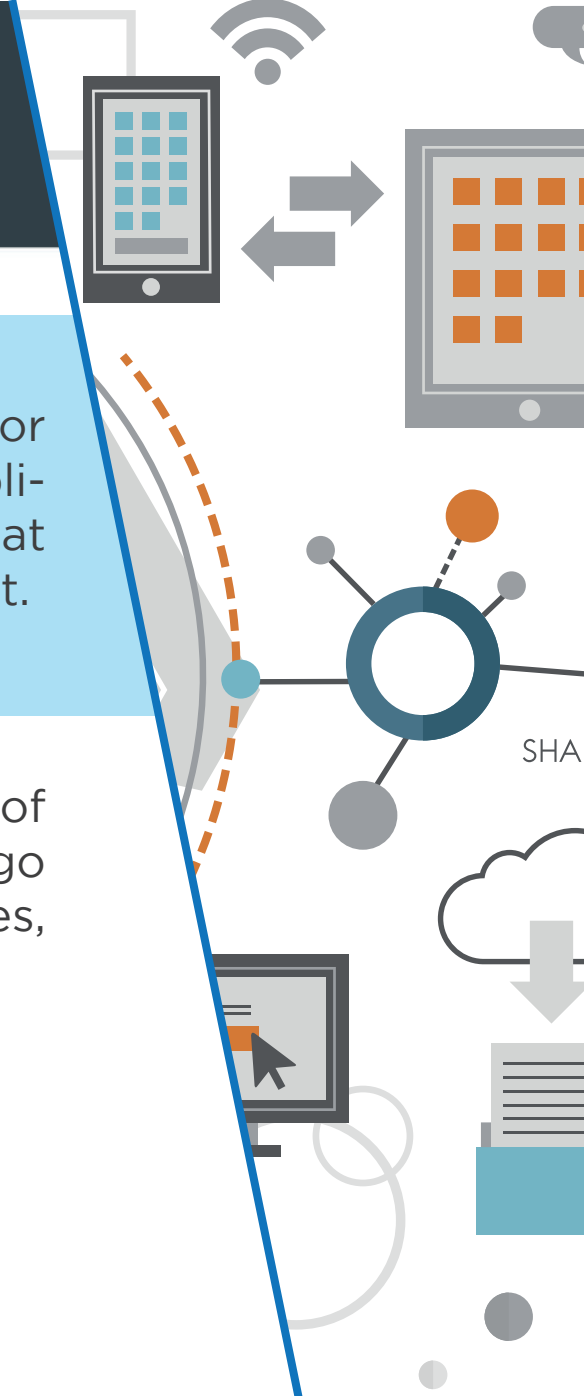
IN FOCUS

Definition; Transferrable Records

Transferable documents or instruments are paper-based documents or instruments that entitle the holder to claim the performance of the obligation indicated therein and that allow the transfer of the claim to that performance by transferring possession of the document or instrument.

Transferable documents or instruments, sometimes called 'documents of title' typically include airway bills, bills of exchange, bills of lading, cargo insurance certificates, marine insurance policies, promissory notes, seaway bills, ships delivery orders, warehouse receipts.

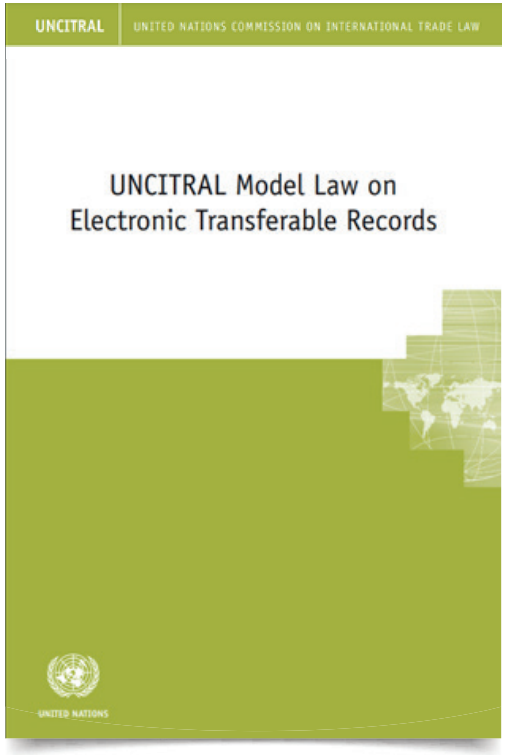
Source: UNCITRAL



MLETR

The MLETR provides an international framework to align national laws and enable the legal use of electronic documents of title both domestically and across borders. The MLETR builds on the principles of non-discrimination against the use of electronic means, functional equivalence and technology neutrality underpinning all UNCITRAL texts on electronic commerce. It enables the use of all technologies including registries, tokens and distributed ledgers.

UNCITRAL is the United Nations Commission on International Trade Law, a subsidiary body of the U.N. General Assembly responsible for helping to facilitate international trade and investment.



Further detail can be found here.

THE UK SME CHALLENGE

There are fewer SMEs exporting over the past 24 months and they have seen their revenues and employment fall while larger businesses have been able to become more efficient.

Respondents to our survey felt digitization would increase trade and international business by around 25% - legal reform would give banks the capacity to enable this market

SMEs are struggling

- The number of SMEs exporters has declined progressively since September 2017 according to Coriolis data

- While large businesses have managed to grow their revenues, small and micro exporters have seen their revenues drop by between 5 and 25% respectively

- The number of exporters overall in the UK has been dropping since mid 2019

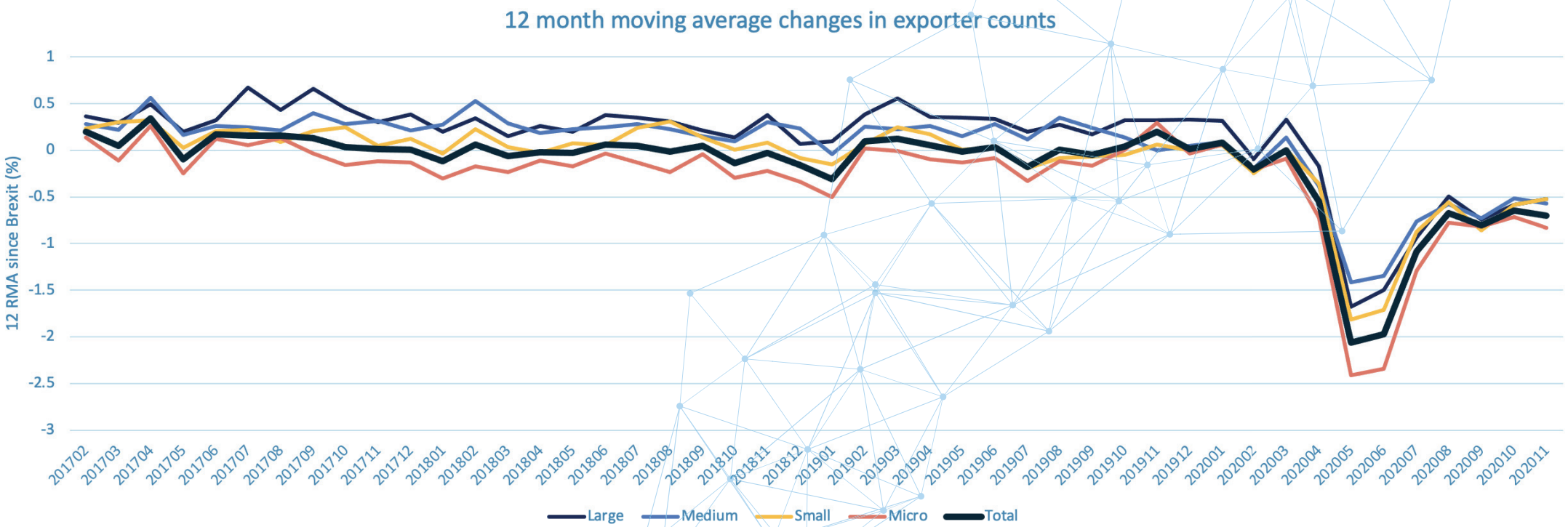
- There was an estimated SME trade finance gap via banks of £2.3bn in the UK in 2020

TRADE FINANCE GAP CALCULATION METHOD: SME trade is around 28% of total trade; trade finance is around 80% of the total value of trade; Bank Intermediated Trade Finance is around 1/3 of total trade finance. In the latest Santander Trade Barometer, around 8% of businesses saw access to finance as a barrier in the next 12 months. The calculation is based on these assumptions

SOURCE: Coriolis Exporter Monitor March 2021: https://coriolistechnologies.com/multilateral-thinking-coriolis-sme-monitoring-tool/ ONS trade data matched to Coriolis Technologies Trade data for comparability purposes

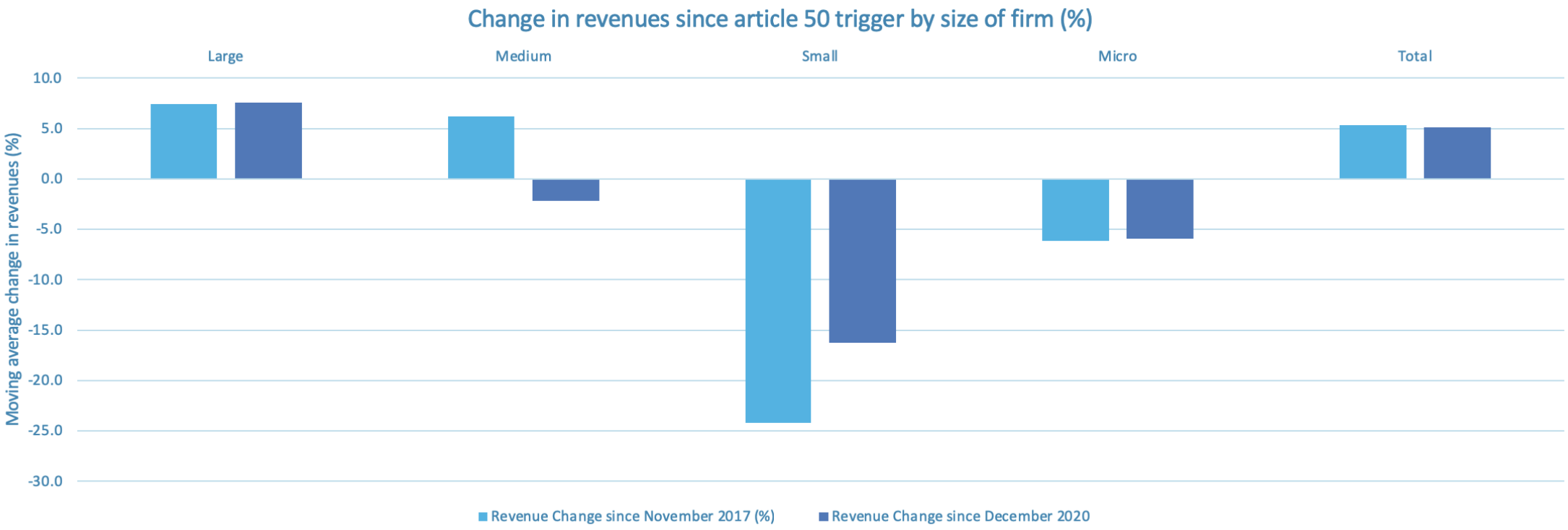
IN FOCUS

Bill of Lading data shows exporter counts declining ....



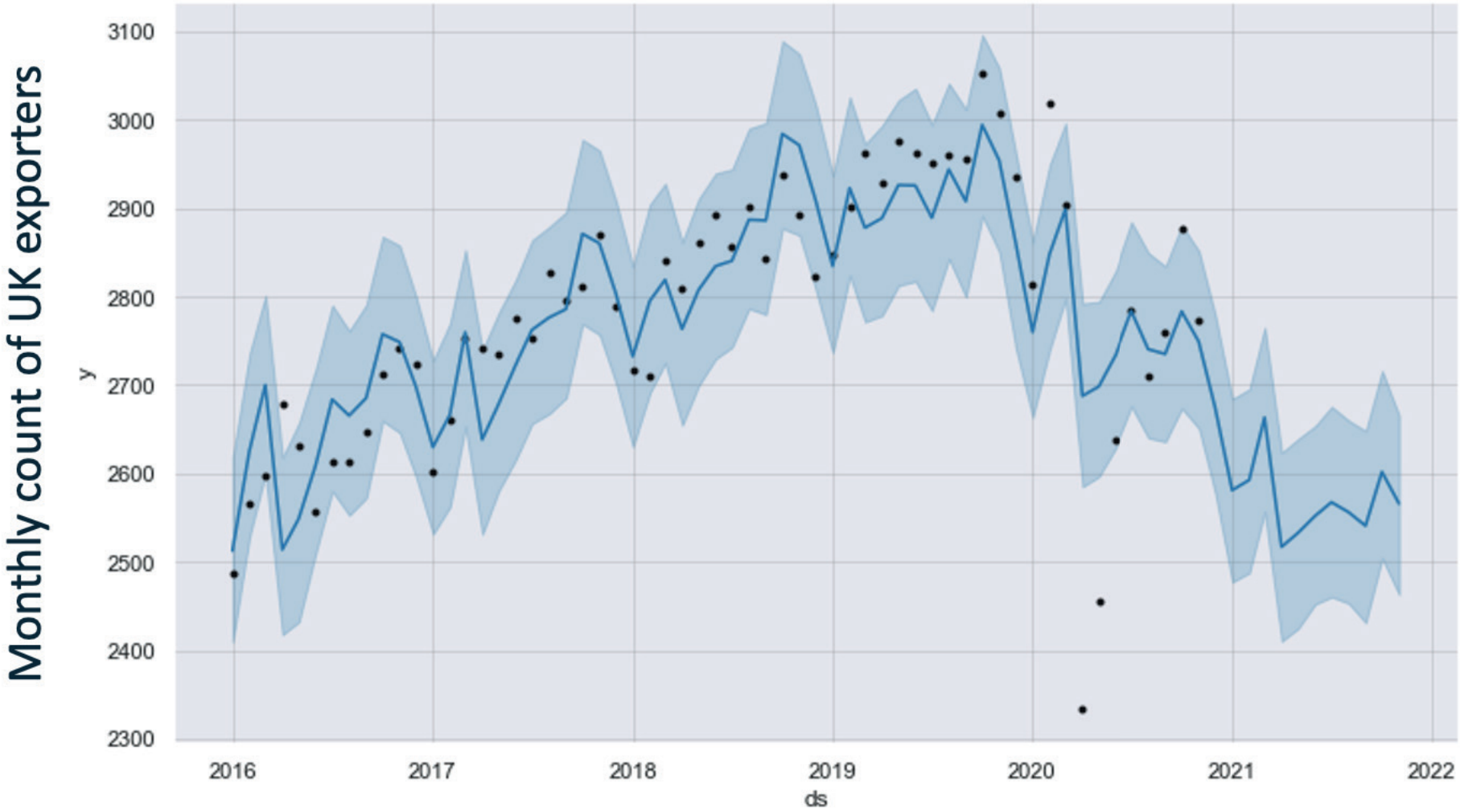
IN FOCUS

.... Revenues for SMEs are declining



IN FOCUS

.... Making the overall picture look worrying in terms of numbers of UK exporters



- **80%** use manual documents and instruments – only **10%** SMEs interviewed use digital trade finance

- **Working capital** is the most common form of trade finance, followed by letters of credit

- **80%** use bills of lading, **40%** use bills of exchange, **30%** use promissory notes. Working capital requirements are the core reason for accessing trade finance

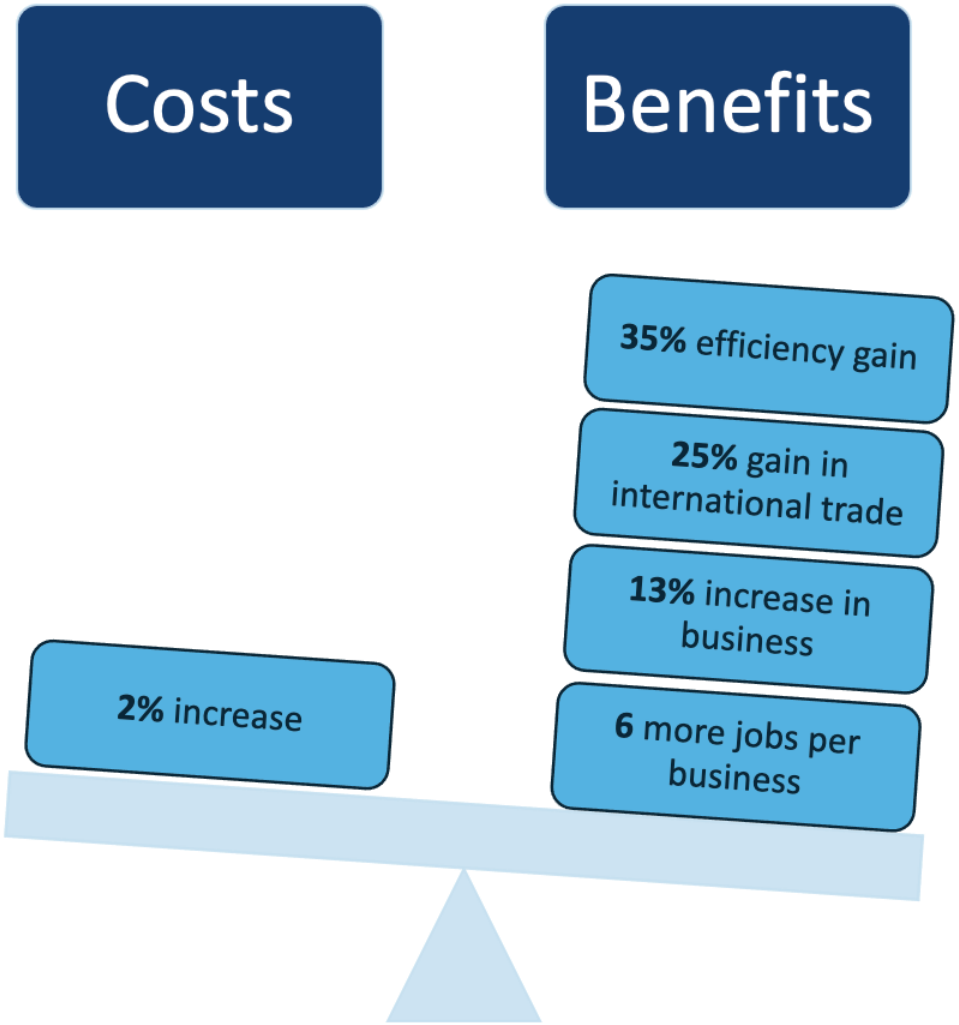
- **60%** said digital letters of credit or bills of lading would improve working capital management, **40%** said it would improve efficiency

70% had experienced issues because of the time it took to get finance, and here's why:

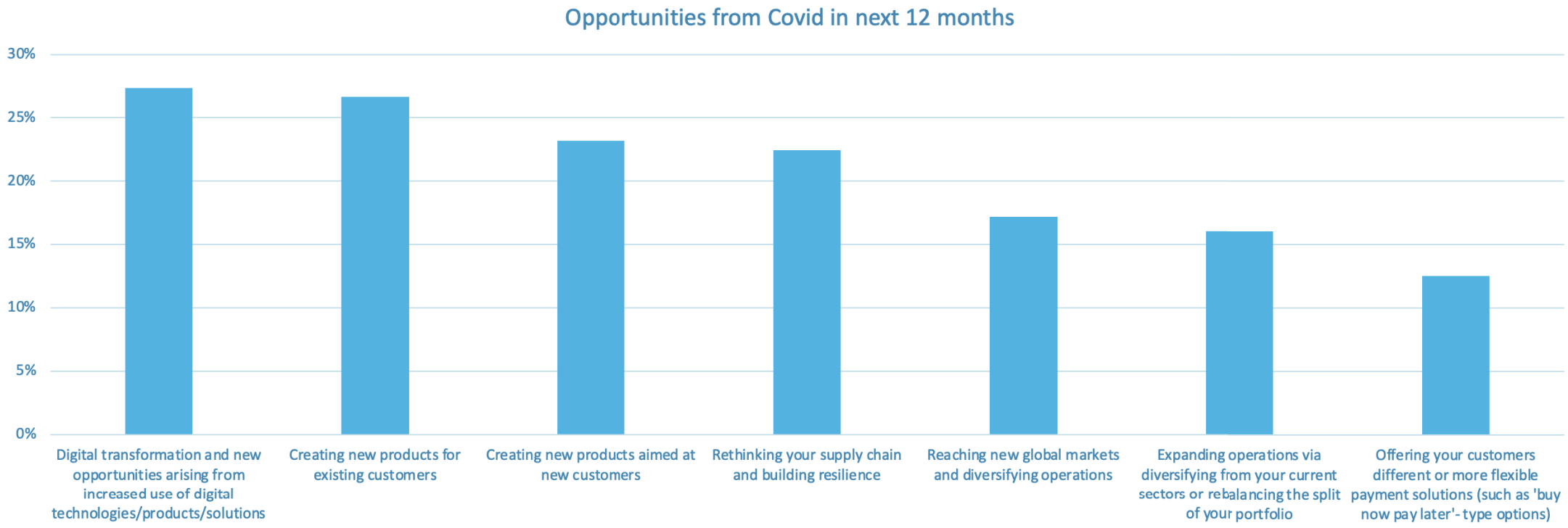
- Working capital took on average 4.5 weeks to arrange
- Overdrafts took on average 1 week to arrange
- Currency accounts took on average 3 weeks to arrange
- Letters of credit took between 5 and 9 weeks to arrange
- Receivables finance took around 5 weeks to arrange

Respondents could see real advantages from digitizing trade finance documents

While the numbers are only indicative, the results suggest a compelling reason for digitizing negotiable instruments



Post Covid, the biggest opportunities are digital



Source: Santander Trade Barometer, Spring 2021, n = 1004

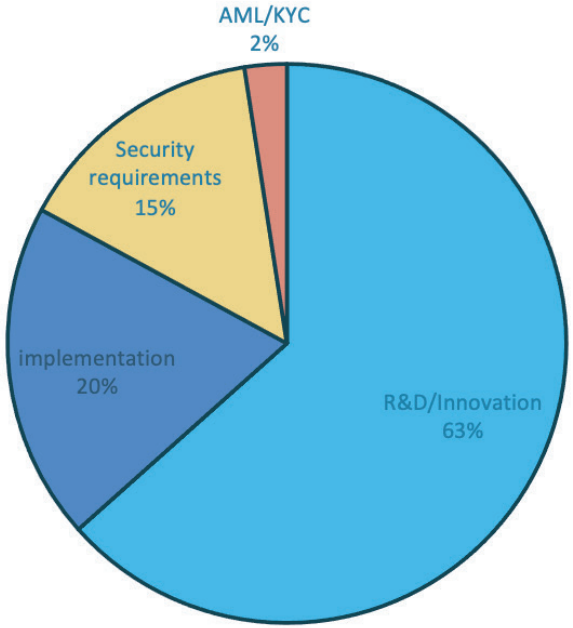
DIGITAL NEGOTIABLE INSTRUMENTS HELP SOLVE THIS CHALLENGE

Digitising negotiable instruments will enable businesses to remove unnecessary bureaucracy, promote innovation, speed up transaction times and free up working capital to invest in trade

R&D costs are high, but implementation and economies of scale are substantial

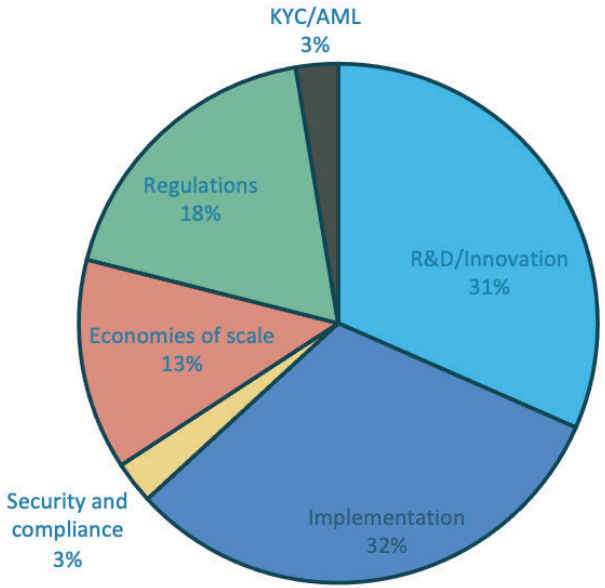
Sources of Costs

Sources of cost increases (% respondents)



Sources of Efficiency gains

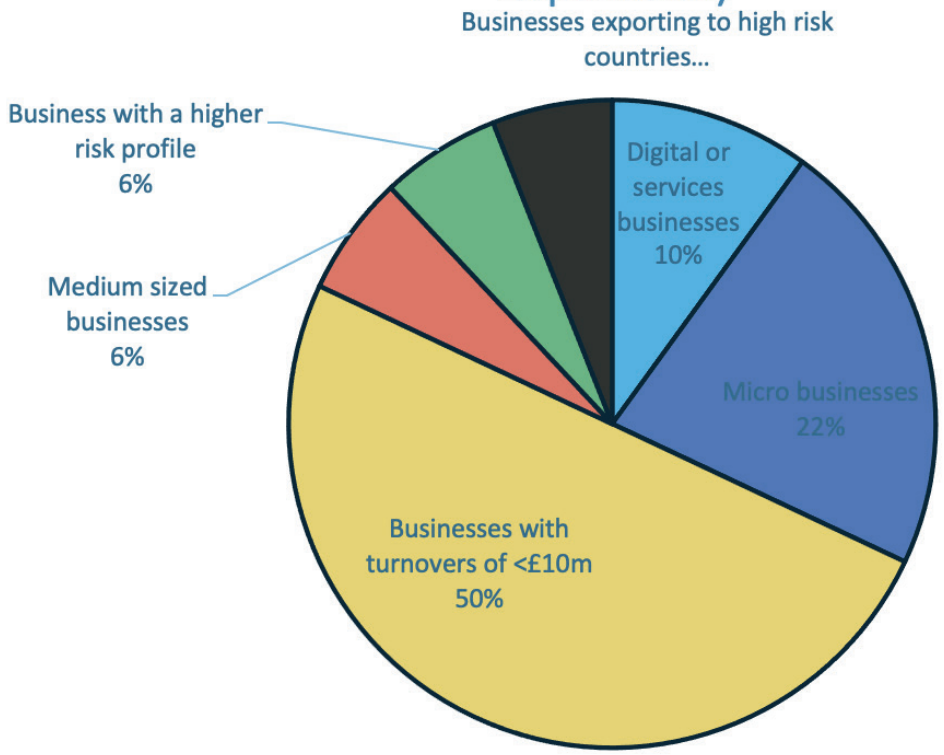
Sources of cost efficiencies from digitisation of negotiable instrumentss (% respondents)



Source: Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Legal reform will enable SMEs to reach new markets

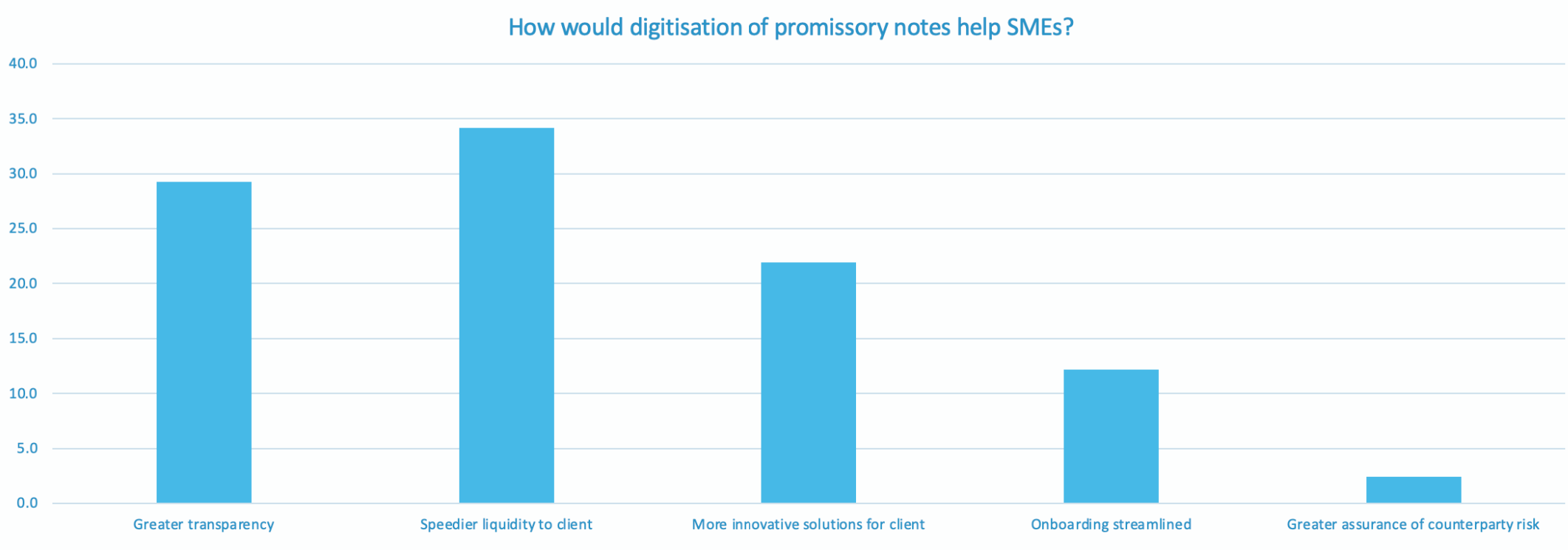
New markets enabled if negotiable instruments digitised (% respondents)



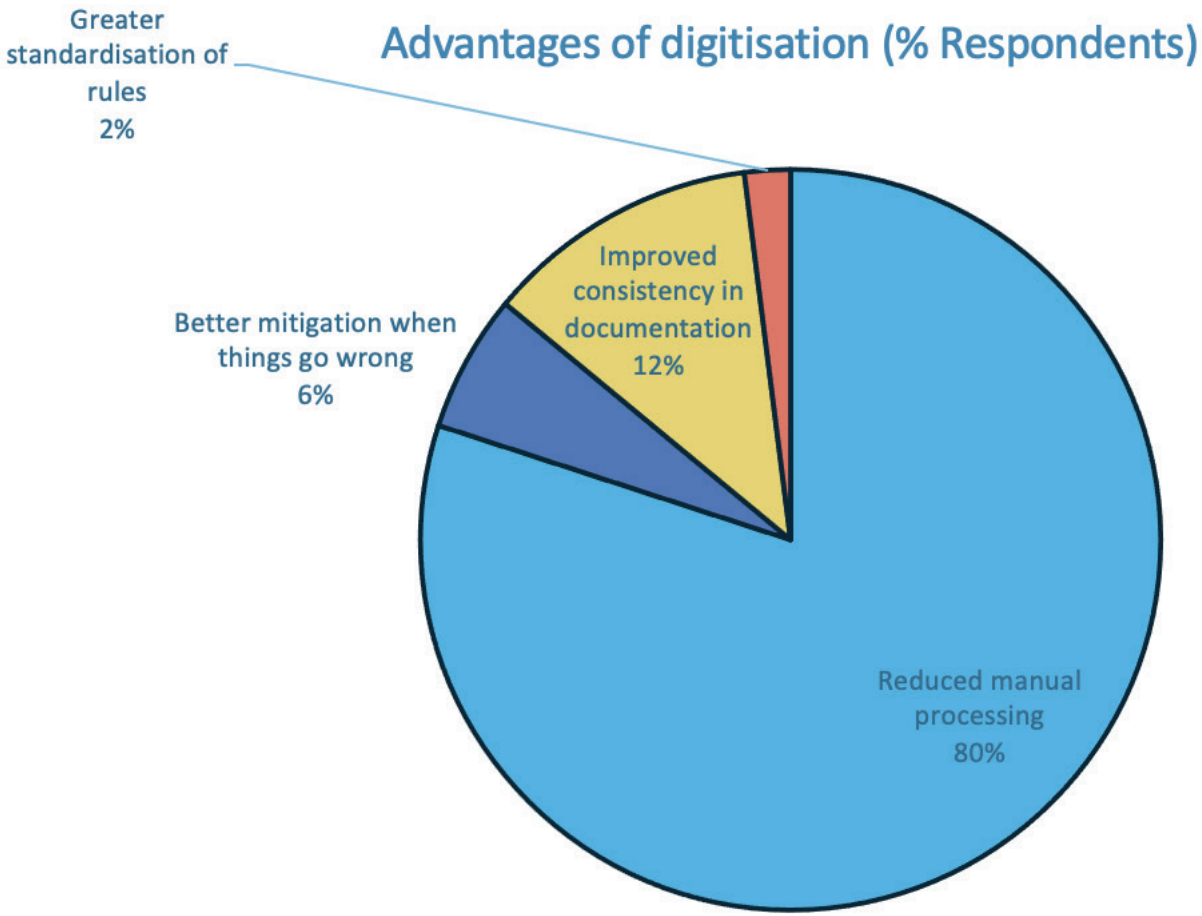
- Businesses with turnovers of less than £10m will be the main beneficiaries of legal reform
- But micro businesses with less than 10 employees will also benefit
- These are the businesses we need to be at the heart of the economic recovery

Source: Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Legal reform will speed up liquidity to SMEs



The main advantage of legal reform will be through reduced manual processing

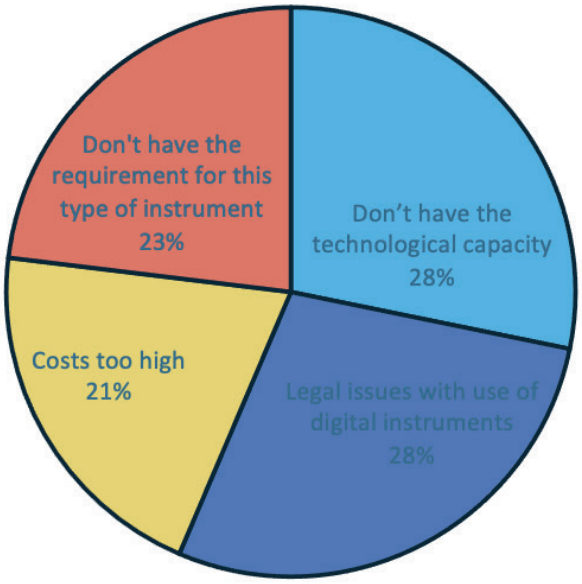


If it costs less to onboard an SME, the process is streamlined and there are fewer risks, then it takes the main obstacle to financing this market away

Legal Barriers are a Key Issue

28% of respondents said it was the law that was holding them back from digitising

Which of the following are reasons for limiting or preventing your adoption of digital instruments?
(% respondents)



- A change in the law would remove the issues associated with using digital instruments
- It would increase demand and create a business case for digitising trade documentation

THE IMPACT OF DIGITISATION OF NEGOTIABLE INSTRUMENTS ON THE UK

Trade will increase by £24.6bn in the next few years, and if every single exporting SME created 6 jobs, then it would create over 3m more jobs assuming there are 530,000 exporting SMES:

https://www.british-business-bank.co.uk/wp-content/uploads/2020/02/702-UK-SME-Exporting-A4-86pp_publication_single-pages.pdf)

Interviewees saw a real enabling impact of a change in the law to enable digital negotiable instruments

- Change in UK law will have enabling effect across the world

- Digital bills of lading would have the biggest impact on trade flows and working capital solutions particularly for SMEs

- There would also be an enabling/market creation element to digitization making it easier for banks finance smaller companies

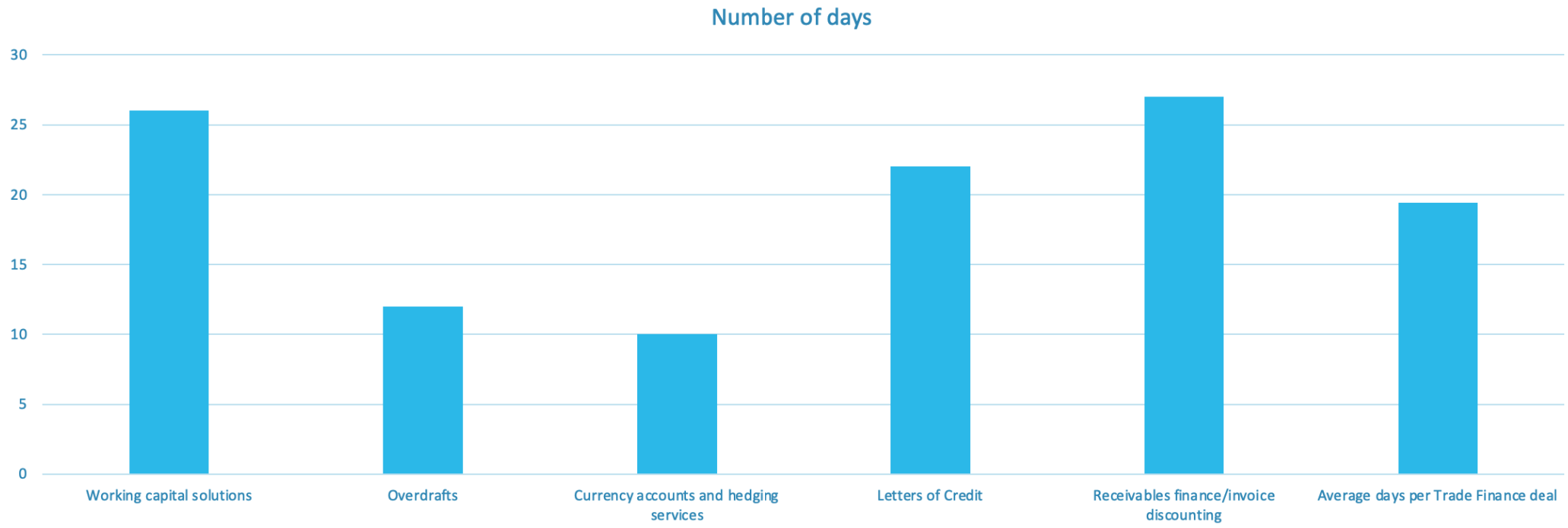
- Trade transaction time and access to working capital will be quicker and therefore generate more trade

- Digital promissory notes would enable swifter “insurance wrap” around SME solutions

Why it is so expensive to provide finance to SMEs ?

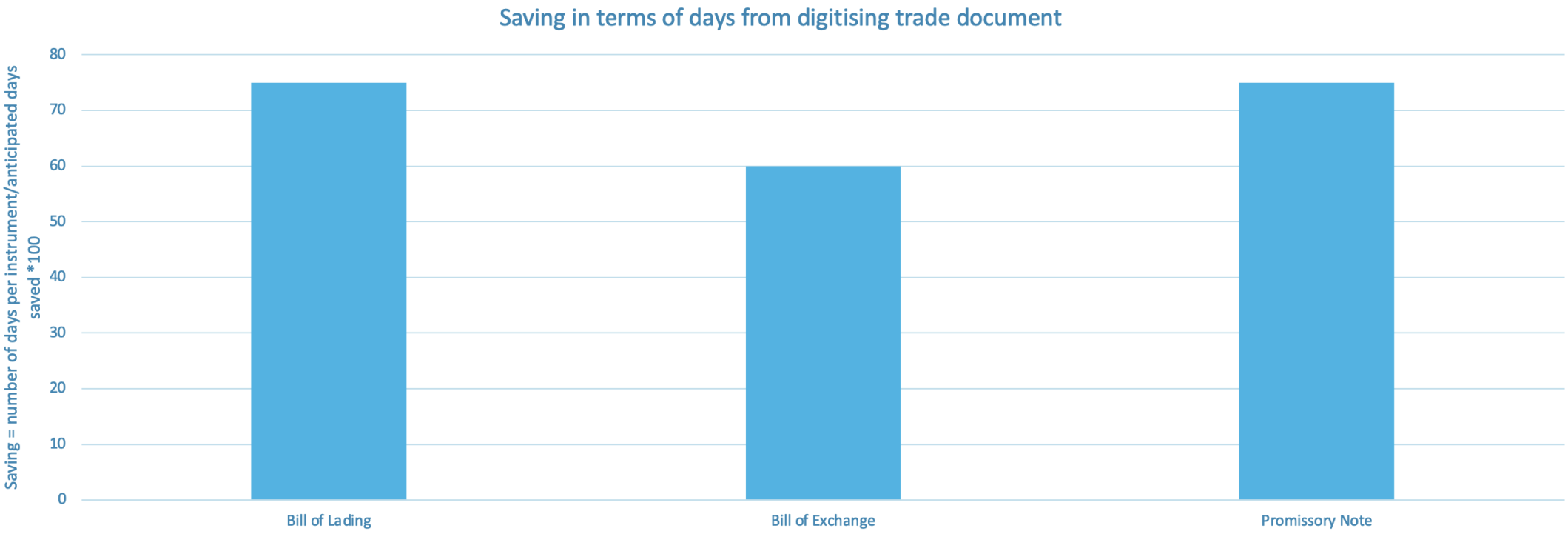
- Global trade was worth **$21.6tn in 2019** (WTO and Coriolis Technologies)
- There are **4 billion paper documents** on average per year (GPH-ICC)
- There is an average of **15 documents per transaction** (midway of 10-20 in BCG estimates)
- This means that, in 2019, the document cost per transaction could be said to be **$81,000**
- This is in addition to the Cole Commission cost estimates of around **£60,000 per business** in onboarding costs

Trade finance solutions by days



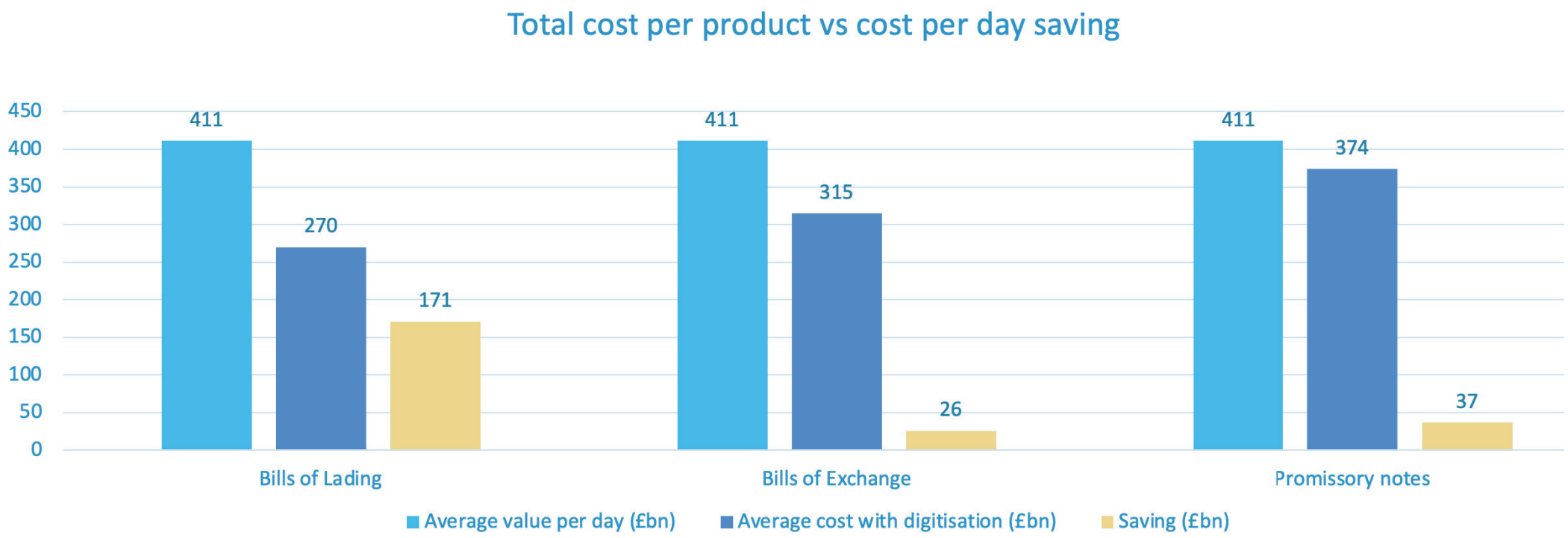
Source: Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Savings in terms of days to process documents



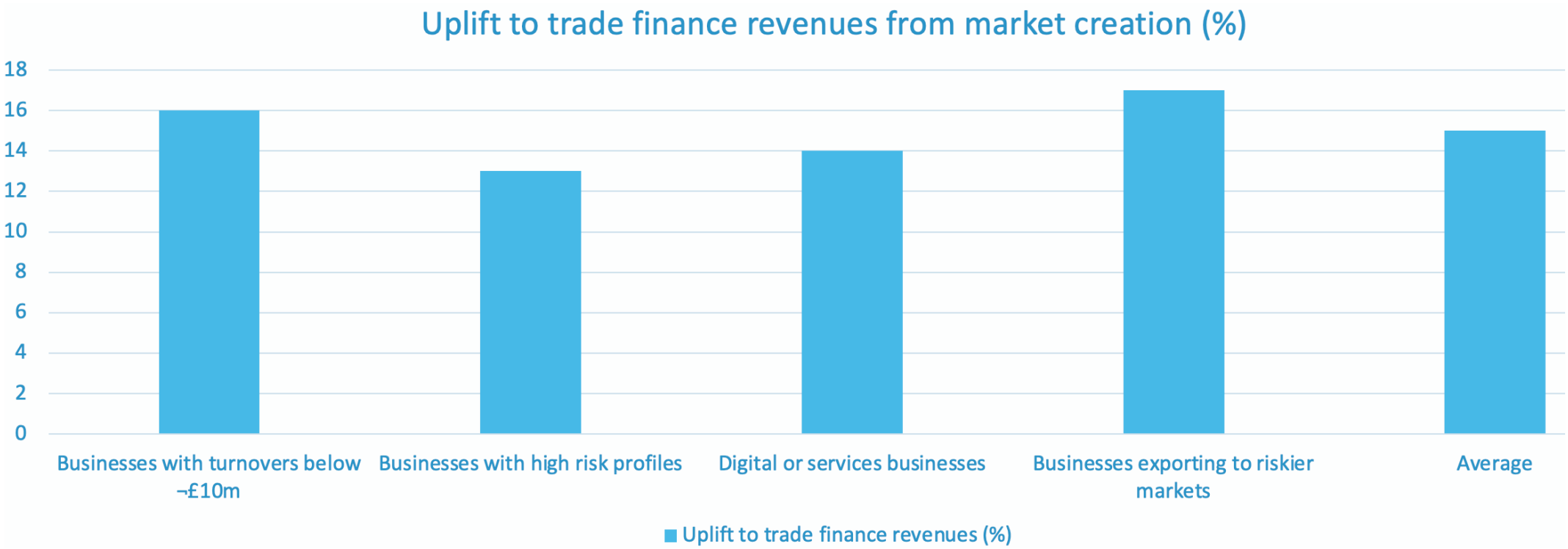
Source: Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Trade finance savings



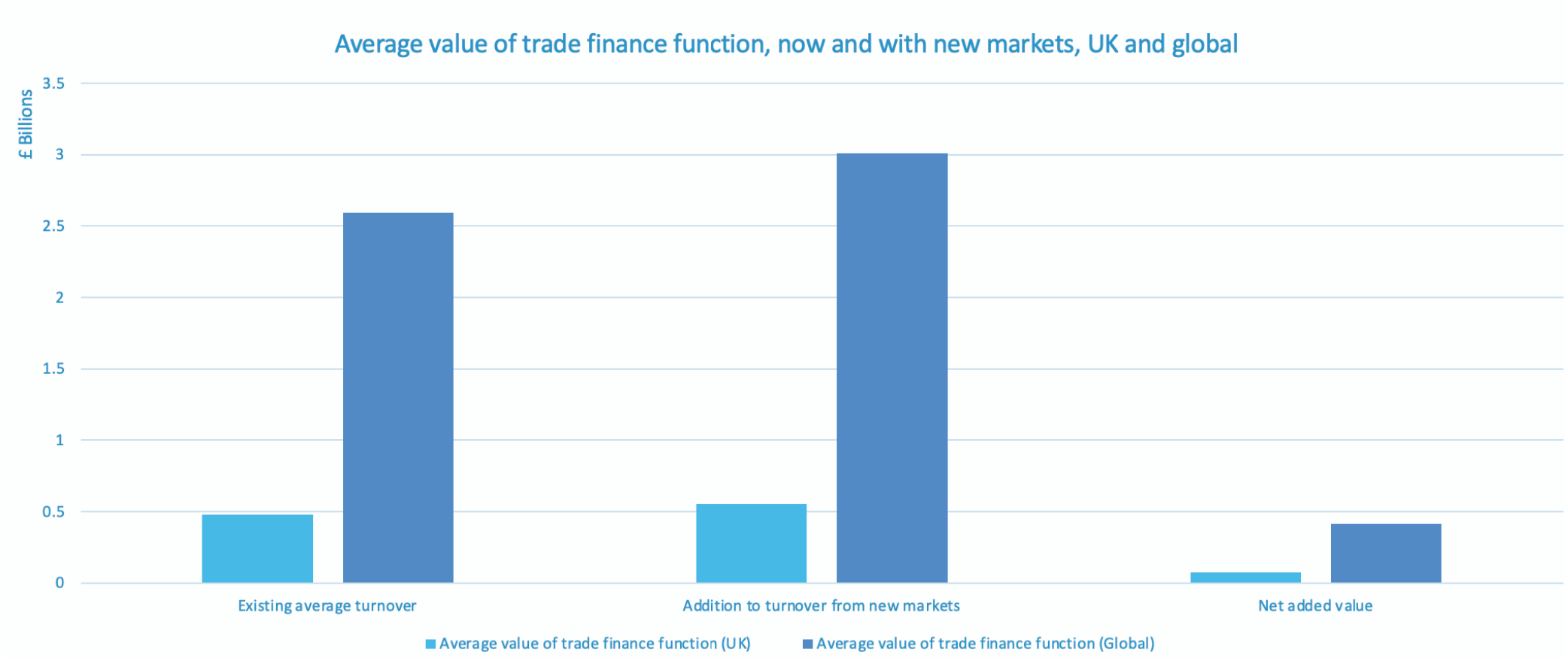
Source: Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Uplift to trade finance revenues



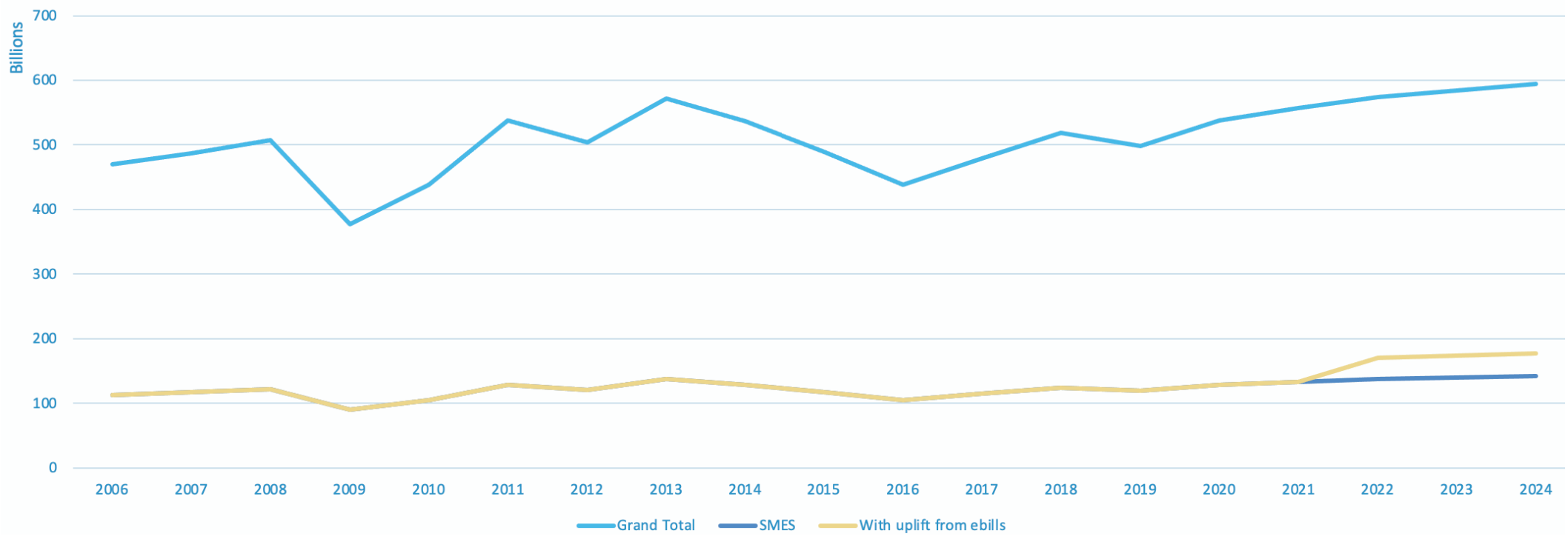
Source: Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Indicative increase in trade finance revenues



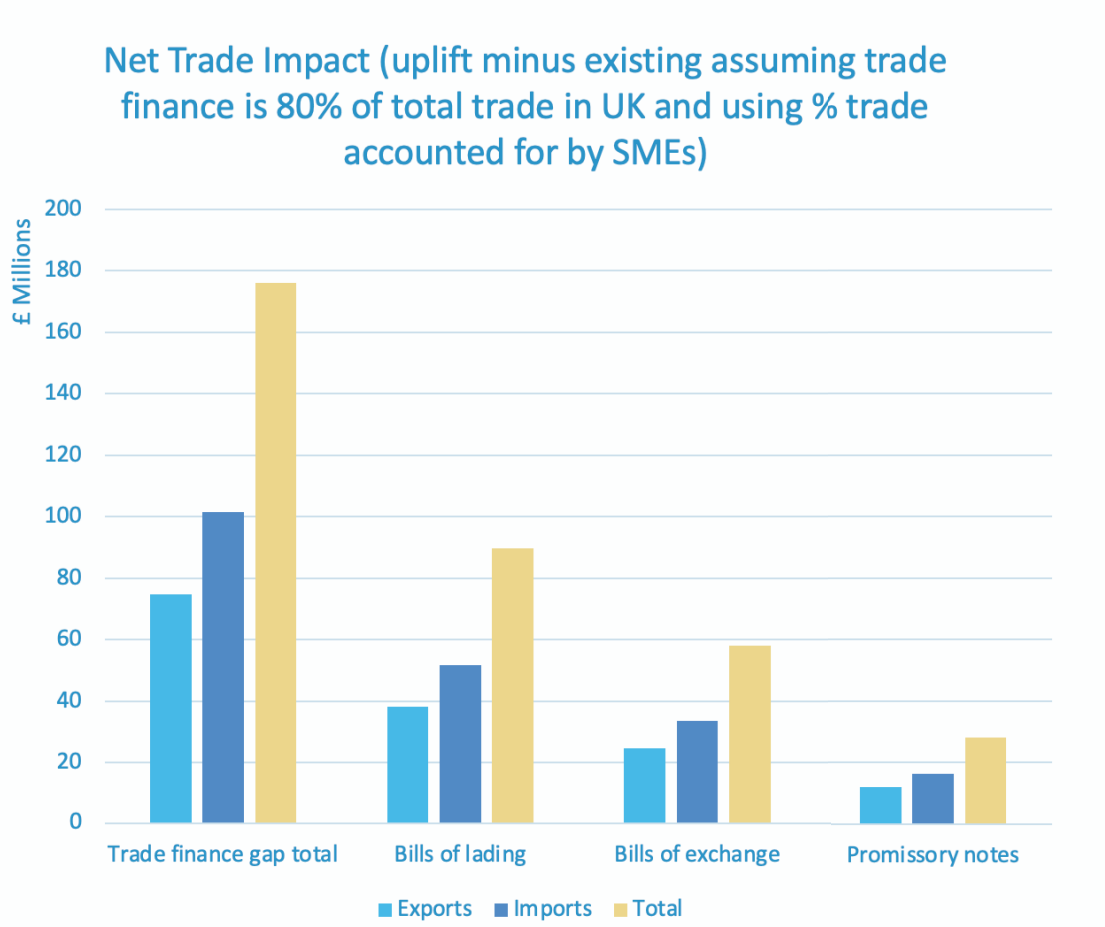
Source: Derived from Legal reforms to enable digitization of negotiable instruments survey, January 2021-March 2021, n = 55

Goods trade uplift: £24.5bn in extra SME trade by 2024



Method: trade values are annual and taken from the Coriolis Technologies MultiLateral trade data for comparative purposes. This data is mirrored bilaterally using OECD mirroring techniques. The forecast is a simple ARIMA forecast to provide a base case. The estimated uplift is calculated from the survey results for estimated savings over time per product

How does the uplift in trade convert to trade finance for SMEs



This could mean nearly £1bn in extra trade finance through these products by 2024

- £380m additional export finance enabled through bills of lading
- £335m enabled through bills of exchange for exports
- £162m enabled through promissory notes

Method: Trade finance is assumed to be 80% of the value of total trade (consistent with WTO and Berne Union assumptions). The proportion of SMEs and their total trade value is taken from UK trade info and Coriolis curated Bill of Lading data matched to Bureau van Djik data to establish enterprise characteristics. Sector and regional breakdowns are available on request

This research is based on:

Qualitative and survey research:

- Interviews with stakeholders (n = 22)
- Literature search meta analysis
- Survey of banks (n = 55) and SMEs with turnovers of <£6.5m (n = 10)
- Santander Trade Barometer Survey (n = 1004)
- Focus group on digital trade finance

Quantitative research:

- Application of numbers from qualitative research and surveys to trade flow data

Further research:

- The company survey has highlighted some interesting findings but is a small sample. Further research should focus on developing this angle

Acknowledgements

We would like to thank the following for supporting this project.

We would also like to give a special thank you to the Department for Digital, Culture, Media and Sport and the UK Law Commission for their kind support and input throughout the project.

Produced by:
Economic research produced by:
Dr. Rebecca Harding, CEO, Coriolis Technologies
rh@coriolistechnologies.com

Business case commissioned by
ICC United Kingdom
info@iccwbo.uk