

# Why the internet of things is slow to change trade finance

20 July, 2020 Ouida Taaffe

**Data is driving the new industrial revolution, but not all businesses can tap into the data they need or turn it into actionable insights. Ouida Taaffe looks at why the ‘internet of things’ (IoT) isn’t impacting trade finance in the near term.**

Trade finance operates globally and provides bespoke funding and guarantees for international trade. It should, in principle, benefit from new data sources.

If nothing else, the sector could update some practices. For example, a paper bill of lading is still what gives transferable title to goods (<https://iccwbo.org/content/uploads/sites/3/2018/10/the-legal-status-of-e-bills-of-lading-oct2018.pdf>). There are obvious efficiencies to be made by using e-docs.

## What is the internet of things?

The Cambridge Dictionary defines the internet of things (<https://dictionary.cambridge.org/dictionary/english/internet-of-things>) as "objects with computing devices in them that are able to connect to each other and exchange data using the internet".



Trade finance clients are already using data from the IoT to achieve much more than cutting down on paperwork.

Manufacturers and exporters are using tags that can transmit data on, say, the location and temperature of goods to help optimise their processes.

The data supplied can be very detailed and available in real time. For example, engineers at MIT have devised sensors that can [detect the presence of particular chemicals \(http://news.mit.edu/2018/mit-engineers-configure-rfid-tags-to-work-as-sensors-0613\)](http://news.mit.edu/2018/mit-engineers-configure-rfid-tags-to-work-as-sensors-0613), such as carbon monoxide.

Partly because the IoT provides data that was not available before, great things are expected from the data analysis.

A German maker of automation solutions reportedly boosted its performance by 40%, and cut production time by 30%. How? By using radio frequency identification (RFID) tags to make data on its internal processes transparent and accessible.

And the applications are not just internal.

Big firms are using data from the IoT to help co-ordination with their suppliers. If the numbers cited are typical of the efficiency gains that can be made, manufacturers and exporters will be highly incentivised to invest in the IoT.

## Moving to fully digital trade finance

But even if trade finance clients can produce all the actionable data that the IoT promises – and supply it to the banks – moving to fully digital trade finance will still take time.

“The challenge for the IoT is not the technology, though it depends on having the right connectivity and messaging,” says Gulru Atak, Global Head of Innovation, Citigroup. “The challenge is in creating the network effect.”

Atak adds that using the data from the IoT is “definitely” of interest in trade finance, but much of it is still in the proof of concept stage.

A fundamental hurdle for any shift in financial services is getting the right regulations in place globally. Ensuring that all companies are on board will also be a major ask.

## Why interoperability is taking time

Liliana Fratini Passi is the CEO at CBI Scpa – an umbrella body for the financial sector in Italy that helps develop interoperable payment infrastructures and foster digitalisation.

She says, “High-tech companies are able to design and build IoT tracking devices as small as a pill and as big as an airplane, thus making it possible to gather virtually any kind of data.”

Fratini Passi says that IoT devices will increasingly be used in the import and export business.

“Shippers, customers and financial institutions providing trade finance products will soon be able to receive real-time data about goods being shipped through all kinds of sensors connected to the internet.”

However, interoperability will take time as – even for big firms – a fully interoperable network is not yet in place.

Fratini Passi is keen to drive interoperability forward in her roles at the United Nations (UN). She’s Vice Chair of the UN Centre for Trade Facilitation and Electronic Business, and UN Economic Commission for Europe liaison officer to the ISO Technical Committee on financial services (TC 68).

And she’s confident that things are moving forward.

“Standards – such as the one produced by the International Organization for Standardization in 2019 on the interoperability of the IoT systems – show us that we are heading towards the right direction,” she says.

“However, we are still far from having a comprehensive standardised framework to govern the use of IoT devices and infrastructures.”

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