Are we doing enough to bridge the trade finance gap?

Practical solutions to address the trade finance gap, with a focus on small- and medium-sized enterprises in emerging and developing markets

THANKS TO

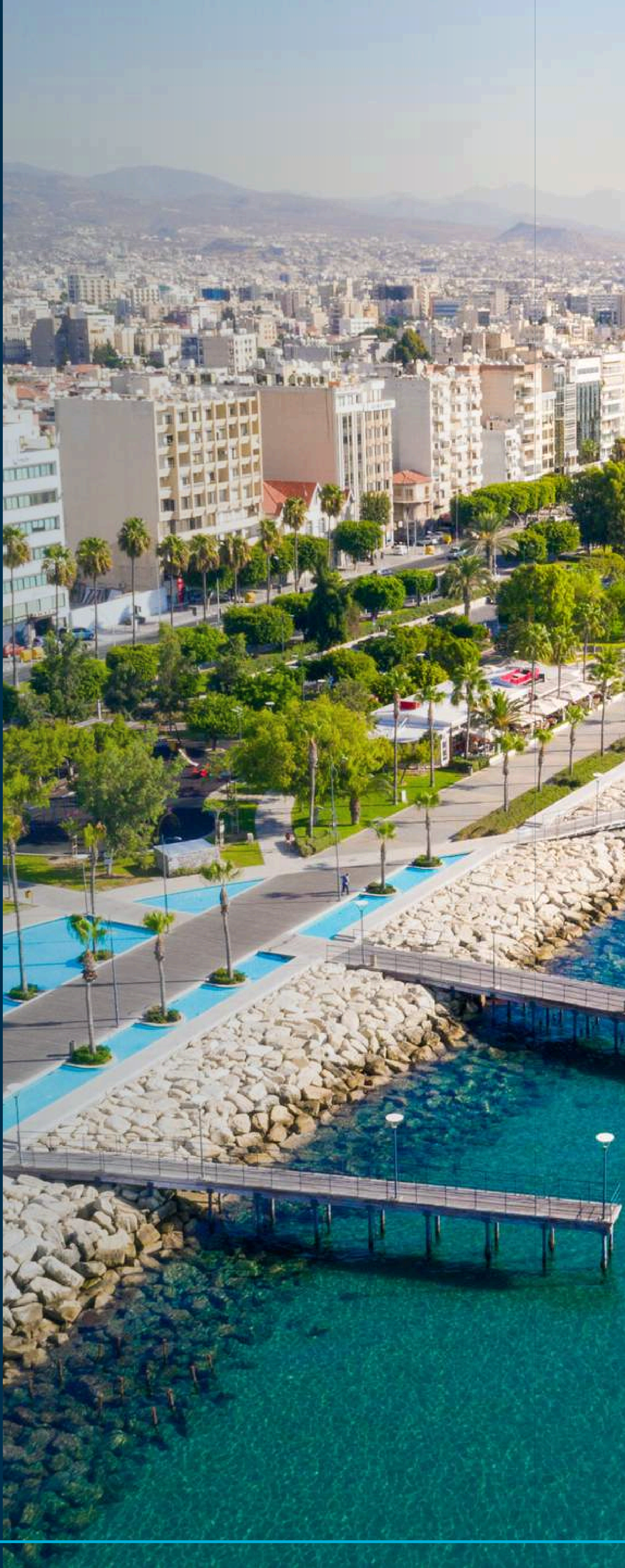
Cruz González Agrelo
Baihas Baghdadi
George Bellord
Sean Edwards
Harsha Mehta
Lorna Pillow
N L N Swaroop
Khilola Turaeva
Patrik Zekkar

TFG EDITORIAL & MARKETING TEAM

Carter Hoffman
Duygu Karakuzu
Kirtana Mahendran
Mahika Ravi Shankar
Deepesh Patel

LAYOUT DESIGN

Nigel Teoh

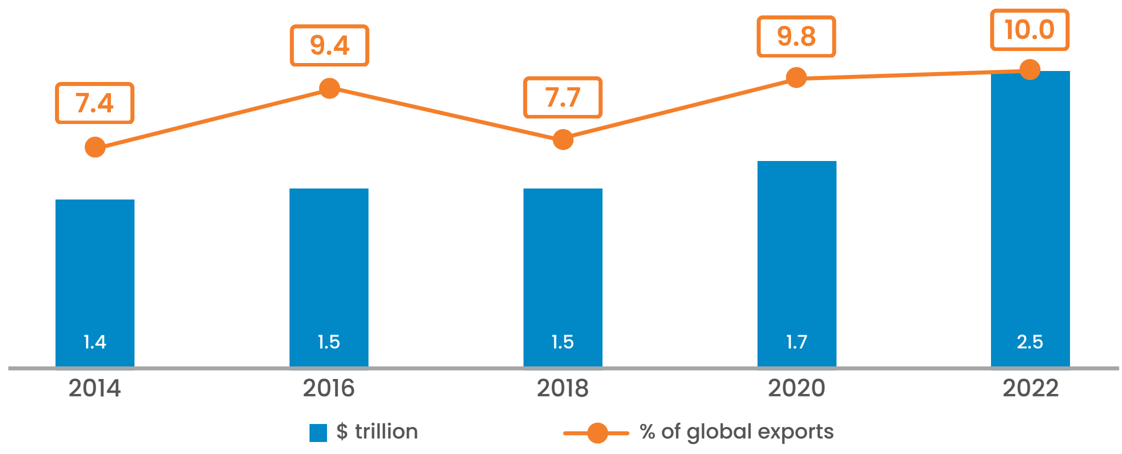


CONTENTS

Industry leaders discuss solutions to the global trade finance gap for SMEs

The global trade finance gap, estimated at over $2.5 trillion, remains a significant barrier to economic development, particularly for the small and medium-sized enterprises (SMEs) that form the backbone of many economies.

Figure 1: Global Trade Finance Gap



Source: ADB. 2023 Trade Finance Gaps, Growth, and Jobs Survey-Banks; and World Trade Organization. WTO Data. https//data.wto.org/ (accessed 19 July 2023)

These businesses often struggle to access the financing they need to trade internationally. Larger corporations tend to dominate access to credit, leaving smaller businesses working with liquidity constraints and operational inefficiencies.

While individual efforts by banks and financial institutions have made strides towards narrowing the gap, its magnitude demands collaborative innovation across the trade finance ecosystem.

A combination of credit insurance, better risk distribution, digitalisation, and increased access to private credit offers potential pathways to closing the gap.

At the **ITFA's 50th Annual Conference** in Limassol, Cyprus, Trade Finance Global (TFG) gathered experts from all corners of the industry for a Chatham-House-style roundtable discussion centred around possible solutions that could unlock greater financial capacityin trade finance, particularly for underserved small- and medium-sized enterprises (SMEs).

Before continuing, it is worth noting that what classifies as an "SME" often varies by country and even by sector. For example, what would be considered as the "Mittelstadt" in Germany, is generally considered as large in the developed world. This can create challenges and data reporting discrepancies when talking about this group on a global scale. Trade Finance Global generally considers SMEs to be firms employing between 10 and 250 people. Firms with up to 10 employees are considered as micro-firms.

The discussions centred around four interconnected strategies for closing the gap: developing credit insurance, increasing private credit in trade finance, growing distribution through the originate-to-distribute (OTD) model, and digitalisation across segments.

Roundtable participants:

- **Khilola Turaeva,** Head of Trade Risk Distribution, EMEA, ***Bank of America***
- **George Bellord,** Director**,** ***BPL***
- **Harsha Mehta,** EMEA Trade Asset Distribution**,** ***Citi***
- **Patrik Zekkar,** CEO**,** ***Enigio***
- **NLN Swaroop,** Global Product Head – Sustainability, Innovation, FIs & Asset distribution – Global Trade and Receivables Finance**,** ***HSBC***
- **Sean Edwards,** Chairman, ***International Trade and Forfaiting Association (ITFA)***
- **Baihas Baghdadi,** CEO & Founder**,** ***TRADE & WORKING CAPITAL***
- **Cruz González Agrelo,** Head of Lenders Solutions Team Europe & Global Head of Receivables and Supply Chain**,** ***WTW***

1

Developing credit insurance

Traditionally viewed as a risk mitigation tool for corporates, SMEs and large banks, credit insurance is now evolving to cater to a broader market.

While SMEs, which are served both by the private market and export credit agencies, have always formed the majority of policyholders in trade credit insurers' portfolios of clients, historically, credit insurance products were structured for top-tier clients and large corporations, leaving some smaller SMEs underserved. However, in recent years, the demand for more flexible and accessible insurance solutions has grown, prompting a shift in the industry's approach.

SMEs routinely cede credit insurance policies to their bankers as security to secure adequate financial facilities.

Depending on the geography of the policyholder, this has been the market practice since the 1950s-60s.

As regulatory frameworks like Basel IV are implemented and SMEs increasingly seek access to global trade finance, insurers recognise the need to innovate in how they underwrite risks and diversify their portfolios.

1.1 The evolving role of credit insurance for SMEs

A participant in the roundtable discussion highlighted this shift, saying, "*There is a lot of room for innovation. I want to emphasise that word because what I meant by innovation is not just in tech: this is just innovation in how you underwrite risks.*"

This underscores the broader industry recognition that credit insurance must evolve beyond traditional models.

While technology is undoubtedly a key factor in enabling this change, the fundamental approach to risk assessment and underwriting needs to be revised to accommodate SMEs' unique financing needs.

This includes offering more flexible products, such as tailored premium pricing structures, that align with the varied financial capacities and risk profiles of smaller businesses. Such strategies can help create a more inclusive financial system by ensuring that smaller businesses have access to capital when they need it while still managing their financial risk.

1.2 Regulatory drivers: Basel IV and capital relief

This shift toward innovation in credit insurance comes at a time when regulatory pressures are mounting. Under the Basel IV framework, capital requirements are tightening, especially for banks using the **Internal Ratings-Based (IRB)** approach, which will be subject to a new "output floor" of 72.5% of the standardised approach.

One participant said, "*The regulation is getting tougher, and Basel IV is a key part of that—banks need to manage their capital better, and the insurance market has to evolve to meet those needs.*"

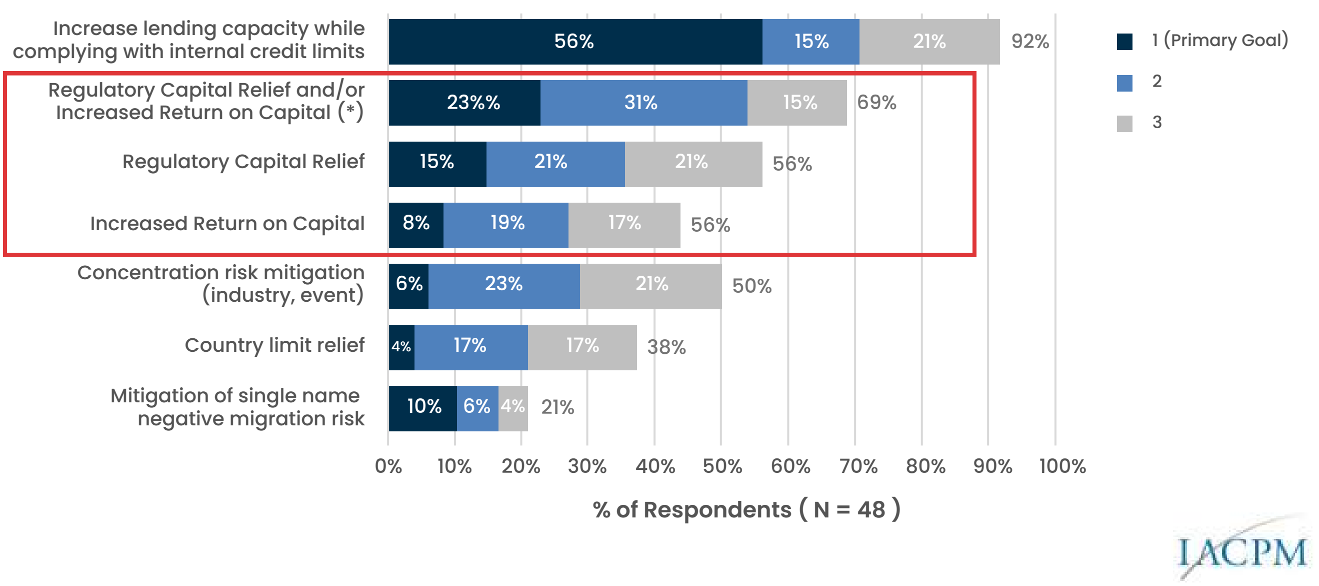
This change forces banks to increase their capital buffers, and many anticipate that it will reduce lending by forcing banks to raise capital, shed assets, or reconsider their risk models and lending strategies. This will affect the flow of credit, especially for riskier loans.

The **International Credit Insurance and Surety Association (ICISA)** and other insurance bodies are critical of the proposed regulations, arguing that the rules fail to acknowledge the role of credit insurance in reducing risk for banks.

Regulators, particularly in the US, have provided a window of opportunity for lobbying efforts to ensure that credit insurance is recognised as an eligible credit risk mitigation tool under the new Basel IV standards.

Credit insurance could provide much-needed regulatory capital relief, allowing banks to offload risk while still complying with the stringent capital requirements set by Basel IV. Insurers, therefore, play a pivotal role in helping banks meet these new regulatory demands by offering products that can efficiently transfer risk.

Unchanged to prior years, firms globally are using CPRI solutions primarily to increase lending capacity



(*) Total of responses to "Regulatory Capital Relief" and "Increased Return on Capital". To avoid double-counting, percentages reflect only one Capital related ranking per firm, e.g., if a firm ranked "Regulatory Capital Relief" 1st and "Increased Return on Capital" 2nd, the total only reflects Rank 1 for "Regulatory Capital Relief". Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023
Question: What are your top 3 goals when using CPRI for any of the asset classes indicated above? Please rank from 1 (primary goal to 3. (Q17)

1.3 Diversifying portfolios and increasing competition

The evolving role of credit insurance in trade finance is not limited to banks.

Historically, the credit insurance market was dominated by a small number of large underwriters who primarily focused on large, established institutions, thereby limiting competition and capacity.

However, in the broader credit insurance space, particularly in the context of SMEs and the WTO framework, smaller enterprises have been the majority of policyholders. In contrast, within the single-risk space, demand among smaller firms remains relatively small in terms of the volume of applications and the monetary value involved, making it challenging for underwriters to profitably manage such business.

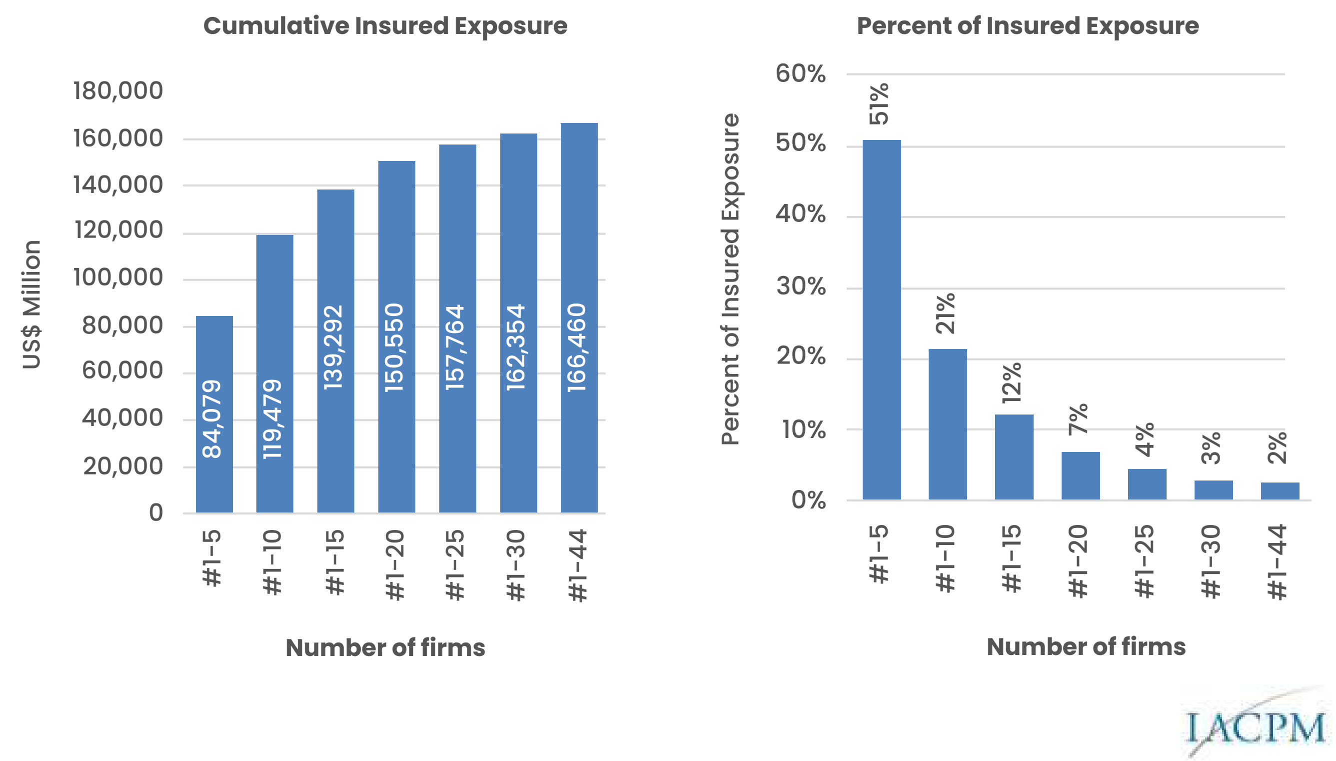
This dynamic often resulted in capacity constraints for smaller banks and non-bank financial institutions that sought to insure smaller, riskier portfolios.

As banks hit exposure limits with these insurers, the need for more diversified and competitive options has become evident.

One participant said, "*Insurers are looking to diversify their portfolio of clients. The underwriters are hungry at the moment, and it's an interesting time.*"

This bottleneck creates both a challenge and an opportunity for insurers. By expanding their focus to include a broader range of clients—particularly SMEs—insurers can help distribute risk more effectively and, in doing so, increase liquidity in the market.

One quarter of the contributing firms have insured three quarters of the reported global insured exposure



Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2021 and 2023
*Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13) at the end of 2021 and 2022 (in US$ Million).*

The diversification of risk across a wider client base benefits insurers by providing a steadier flow of business and helps banks manage their exposure to individual underwriters.

In this new landscape, competition is essential. One participant said, "*Historically, it's been three underwriters, the large monolines. They cornered the market. The ultimate grail is trying to get more competition into this market.*"

1.4 Tailoring products to meet SME needs

The challenge remains in balancing the needs of both large and small clients.

Insurers must find ways to tailor their products to the specific needs of SMEs while still maintaining the rigorous risk management practices required by regulators. This requires a mindset shift within the insurance industry, where adaptability and flexibility become paramount.

On distribution, one participant said, "*There's also underwriting of these risks on the origination side. Banks and other NBFIs have been historically using solvency-based models on how to underwrite credit risk. That fundamentally needs to change.*"

SMEs often face unique financial constraints—such as fluctuating cash flows, limited access to collateral, and high sensitivity to premium costs—and these challenges are particularly acute in developing markets. Limited data, inconsistent legal environments, and the need for specialised product expertise, which is not always available in these markets, make the role of credit insurers challenging.

The trade credit insurance community is working to overcome these challenges in collaboration with other organisations in the ecosystem, such as DFIs and factoring companies. The solutions that insurers provide must continue to address these realities while innovating to provide profitable offerings tailored specifically to the smaller end of the SME segments as well as those in developing markets.

For example, insurers can continue to help bridge the gap between large corporate clients and smaller businesses, adjusting premium pricing based on an SME's specific risk profile.

This would increase access to trade finance for SMEs and help spread risk more evenly across the market, enhancing overall liquidity.

Such innovations could also be instrumental in expanding credit insurance's appeal to a broader range of institutional investors, such as pension funds and private equity, which are becoming more interested in trade finance as an asset class.

2 The rise of private credit in trade finance

The use of private credit in trade finance is also growing in popularity, particularly as traditional banks face increasing regulatory constraints, such as those introduced by Basel IV. Institutional investors, such as pension funds and insurance companies, are beginning to recognise the untapped potential of trade finance as an asset class.

These private credit providers can help to diversify the sources of funding available to businesses, which, in turn, reduces the reliance on traditional banks that may have limited appetite or capacity to finance smaller businesses.

One participant said, *"The moment that the institutional investor—who has the real money—finds a way to finance the real economy, the banks will not be needed to assess the risk but only to become the pipes."*

This could lead to a reconfiguration of the trade finance landscape, where private credit providers assume a more prominent role in financing the real economy, allowing banks to act as conduits rather than risk assessors.

Another participant added, "*Banks play a significant role as lenders, whereas institutional investors can help to provide funding and liquidity, but there is a need for banks to change and also the industry to come forward in supporting the wider ecosystem on SME financing.*"

To encourage the incorporation of other capital sources in trade finance, **ITFA's Trade Finance Investment Ecosystem (ITFIE)** have recently launched three working papers. They include a discussion of routes to non-banking capital sources and the role the asset management industry can play; an explanatory overview of trade finance jargon for non-bank investors; and a guiding document to simplify the Securitisation Risk Distribution market, to improve accessibility.

2.1 Addressing the trade finance gap through portfolio-based solutions

For private credit to fully address the trade finance gap, more effort is needed to develop structured financing solutions that appeal to a broad range of investors.

Private credit deals must be structured to distribute risk efficiently across a portfolio of smaller transactions rather than concentrating on a few large-scale deals. This portfolio-based approach allows for a more balanced and scalable risk management framework, providing greater liquidity to SMEs without exposing individual investors to excessive risk.

One participant in the roundtable said, *"There is a massive appetite to finance companies' working capital. Trade finance is at the heart of what big investors want to do."* This presents an opportunity for collaboration between varied parties.

2.2 Scaling up private credit through collaboration

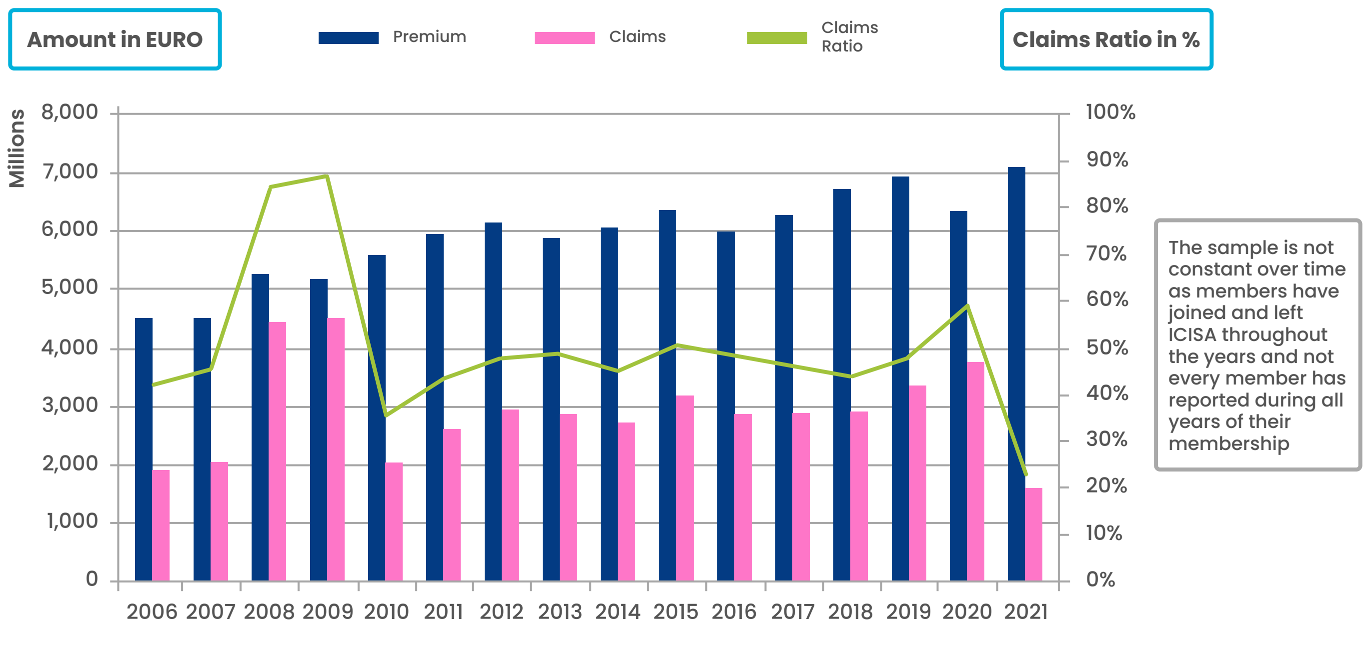
While institutional investors have shown growing interest in the sector, the ability to scale up these investments will depend on the creation of more standardised and transparent structures that appeal to a wide range of investors.

For private credit to become a sustainable and significant contributor to closing the trade finance gap, the industry must continue to innovate in structuring deals that balance risk and return.

This requires insurers and banks to play a more active role in mitigating risks through mechanisms that can spread risk across a diverse pool of investors, enabling private credit providers to support a greater volume of SME transactions.

Private credit providers clearly want to finance SME working capital. Now, the question is whether banks and credit insurers will step up and make the necessary adjustments to welcome them to the table.

Trade Credit Insurance - Premiums, Claims & Claims Ratio ICISA Members (excl reinsurance members)



3 Growing distribution through the originate-to-distribute model

Risk distribution is another vital strategy in closing the trade finance gap and the **originate-to-distribute (OTD)** model has gained traction in recent years, offering a solution that enables banks to shift risk from their balance sheets to a wider network of institutional investors.

This model, in which banks originate loans and distribute the associated risks to a diverse range of investors (such as pension funds, insurance companies, and non-bank financial institutions), is particularly well-suited for trade finance, where high levels of risk concentration often hinder banks from extending their full lending capabilities to smaller businesses.

3.1 Expanding access through partnerships

At the heart of the OTD model is the idea of partnership, with banks collaborating closely with insurers, credit funds, and other financial institutions to spread risk more evenly across a broader investor base.

As one participant said, *"Redistribution allows us to access their programs and them to access our programs. That is a partnership."*

This collaborative approach enables banks to offload risk and allows institutional investors to participate in trade finance, an asset class that many are just beginning to explore.

The redistribution of risk creates new opportunities for both banks and non-bank financial institutions, particularly in the context of financing SMEs. By distributing risk to a wider pool of investors, banks can increase their lending capacity while adhering to regulatory capital requirements, making it easier to fund businesses that traditionally struggle to access credit.

For investors, trade finance represents an attractive investment option. When properly structured, it offers relatively high yields with manageable risk.

In this way, the OTD model is not just a tool for reducing risk exposure but a mechanism for expanding access to capital across the trade finance ecosystem. As more institutions become comfortable with trade finance as an asset class, the network of investors willing to support SME lending continues to grow.

3.2 Increasing lending capacity through expanded distribution networks

By expanding their distribution networks, banks can significantly increase their lending capacity, and the OTD model allows them to originate more loans without taking on additional risk, supporting a higher volume of trade finance transactions.

One participant said, ***"The more we can spread risk across a broader network of investors, the more capacity we create for new trade deals."***

In this sense, the OTD model acts as a scaling mechanism for the trade finance industry, allowing banks to continuously lend without being constrained by their balance sheet limitations.

This increased capacity is particularly beneficial for SMEs, which often find themselves locked out of traditional financing channels due to their perceived riskiness and average smaller transaction sizes.

Under an OTD model, however, banks will be better able to lend to these businesses, knowing that the associated risks will be shared among a wider network of investors.

4 Digitalisation across segments

Digitalisation, long viewed as the catalyst for revolutionising trade finance, is one of the most promising avenues to enhance access to financing, particularly for SMEs. The trade finance sector has historically been weighed down by laborious, manual processes—many of which are time-consuming, costly, and prone to error.

4.1 Onboarding at scale

For decades, one of the most persistent pain points has been the complexity of **Know Your Customer (KYC)** processes. These compliance-driven requirements, which mandate thorough client verification, are particularly resource-intensive for smaller transactions and newer businesses.

The financial burden of these procedures, which include extensive documentation and verification, often incentivises financial institutions to focus efforts on their larger clients, who need to finance larger transactions, making it difficult for smaller businesses to secure credit.

Digitalisation, however, promises to automate much of this onboarding process. By digitising KYC checks, banks and financial institutions can reduce the time and resources required to evaluate clients, thereby lowering costs. This shift makes it feasible for financial institutions to serve SMEs at scale without compromising the rigour of due diligence or regulatory compliance.

In summary, as one participant emphasised, ***"We need to scale. We need to get ready for the potential influx of the origination business coming from the primary centres."***

4.2 Standardise to enable document digitalisation at scale

One promising advancement towards achieving this scale has been the **Digital Negotiable Instruments (DNI)** initiative, which has gained significant traction, outpacing other platforms with similar objectives. The DNI has simplified trade document handling, enabling smoother, faster, and more transparent cross-border transactions.

Electronic documents can be processed faster than paper ones, reducing the time it takes to complete trade transactions. Moreover, digital records offer enhanced traceability and audibility, further strengthening the integrity of trade finance operations.

Another promising development is the rise of the **ICC DSI's KTDDE (Key Trade Documents and Data Elements)**, which is helping to align data throughout the trade finance ecosystem, reducing the cost and risk associated with constantly transforming data as it moves between systems. The KTDDE also recognises the DNI standards for negotiable instruments as the preferred international format.

In a sector that has long relied on paper-based tools, such as bills of lading and letters of credit, which are slow and susceptible to fraud, loss, or mismanagement, document digitalisation is a critical step forward. However, it cannot be efficiently done without a standardised environment.

Figure 1 : Where does each Key Trade documents stand?

Standardised	Standards exist, but without interoperability	Early-stage standardisation
1. Standardised Invoice	1. Purchase Order	1. Road Consignment Note
2. Bill of Lading	2. Shipper's Letter of Instruction	2. Cargo Insurance Document
3. Sea Waybill	3. Packing List	3. Warehouse Receipt
4. Ship's Delivery Order	4. Certificate of Inspection for Organic Products	4. International Veterinary Certificate
5. Air Waybill	5. Advanced Ruling Application	5. Dangerous Goods Declaration
6. Sea Cargo Manifest	6. Letter of Credit	6. Customs Bond
7. Air Cargo Manifest		7. Export/Import License for agricultural products
8. Rail Consignment Note		8. Excise Guarantee
9. Consignment Security Declaration		9. Preferential Certificates of Origin
10. Non-preferential Certificates of Origin		
11. Customs Declaration		
12. CODEX Generic Model Official Certificate		
13. Phytosanitary certificate		
14. CITES permit/certificate		
15. ATA Carnet		
16. TIR Carnet		
17. Transit Accompanying Document		
18. Administrative Documents used in the Excise Movement Control System		
19. Payment Confirmation		
20. Bill of Exchange		
21. Promissory Note		

*Source: **ICC DSI, Key Trade Documents and Data Elements, 2024***

As of the KTDDE November 2023 report, only 21 of the 36 key trade documents analysed are standardised. While more work is needed in these areas, the industry has made significant strides in 2024 and has the potential for further innovation and scaling in 2025.

Beyond standardisation and streamlining the onboarding process, digitalisation allows for better data collection and management, a critical aspect in improving the underwriting and risk assessment processes.

4.3 Leveraging data

Through advanced data analytics, financial institutions can draw on a wealth of real-time information to predict risks more accurately and make better-informed decisions. This is particularly vital for SMEs, which often lack the credit histories or financial data that larger corporations can offer.

As one participant noted, *"If the transactions are digital with data from the beginning, we are in a different position when it comes to sharing data and harvesting it for downstream processes like sanction screening or risk assessment."*

This real-time data, gathered from digital transactions, enables institutions to assess creditworthiness more effectively, providing a clearer understanding of risk profiles, especially for lesser-known businesses. As more accurate data is fed into the system, financial institutions can build confidence in lending to SMEs, which might have previously been considered too risky.

However, as financial institutions increasingly rely on data-driven algorithms to assess risk, monitoring for potential algorithmic discrimination becomes crucial. Without careful oversight, these systems could unintentionally reinforce biases, disadvantaging certain groups or businesses. Ensuring transparency, fairness, and accountability in the way algorithms process and interpret data will trust and foster inclusive access to trade finance for all SMEs, which are essential steps.

4.4 Regulation enabling digitalisation

Regulatory changes, such as the adoption of frameworks like the **Model Law on Electronic Transferable Records (MLETR)**, are also supporting the move towards digitisation.

This regulatory shift is crucial in providing the legal backing for electronic trade documents to be recognised across borders. There is no bigger hurdle to digital document adoption at the firm level than the fear that such a document would not be recognised by the legal system in the event of a dispute.

As more countries adopt MLETR or similar frameworks, the potential for global digital trade finance increases exponentially.

One participant said, "*We need a more widespread regulatory movement for more geographies to adopt it because trade doesn't work in isolation. Just the UK passing regulation or one more geography will not be enough.*"

Another added, "*If we see more adoption, more geographies, and therefore more companies and clients adopting it when our clients push us, we will move.*"

SMEs, in particular, stand to benefit from a shift towards a digitally friendly legislative environment. With electronic trade documents reducing the friction in international transactions, SMEs can access new markets and expand their global footprint, backed by faster and more secure trade financing options.

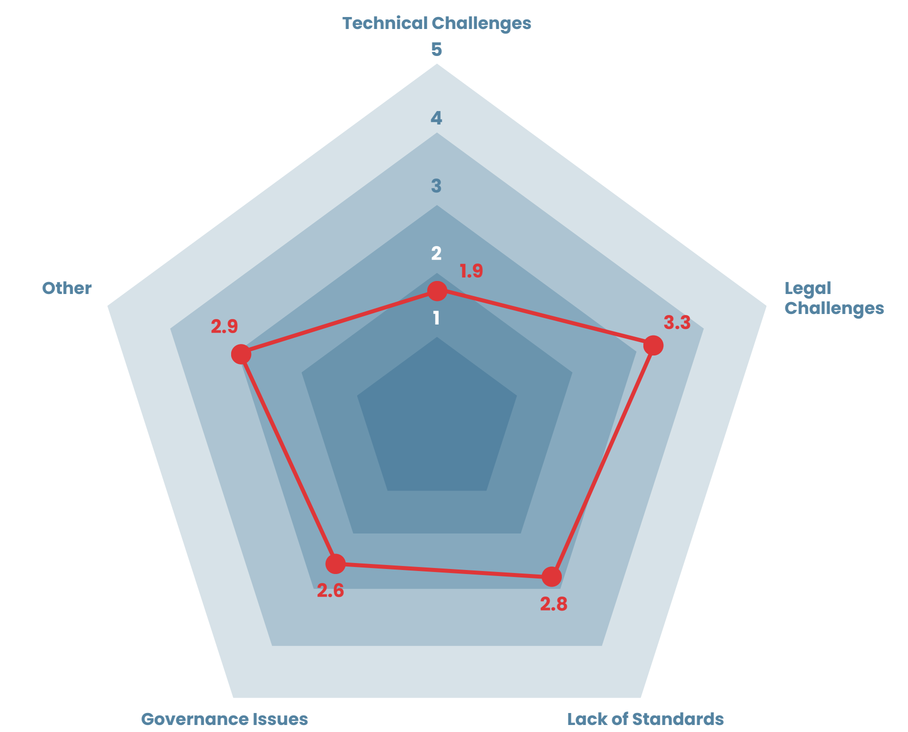
4.5 Digitalisation in the years ahead

Digitalisation will help to reshape trade finance by addressing longstanding inefficiencies in processes like KYC, underwriting, and document management, which will narrow the funding gap by making it easier for smaller businesses to access credit.

The use of automated tools, such as AI, for onboarding, policy writing, and risk underwriting will help to consistently lower the costs of servicing clients. These developments, both among the major providers and smaller providers augmented by specialised platform providers, will help make credit insurance cheaper and more open to the smaller end of the SME segment.

But there is more to digitalisation than just digitalisation; without standardised methods and enabling legislation, there can be no digital transformation at scale.

Perceived Difficulty of Challenges Facing Firms to Scale Up (1-5)



As digital platforms and tools are adopted more widely, they will improve access to financing for SMEs, making it easier, faster, and cheaper for smaller businesses to participate in global trade. By leveraging the power of digital tools, trade finance institutions can open up new opportunities for SMEs to grow and thrive in the international marketplace.

The traction gained in 2024, particularly with initiatives like DNI and KTDDE, indicates a promising future, as the industry looks to build on these advancements and overcome the scaling challenges ahead in 2025.

Final thoughts

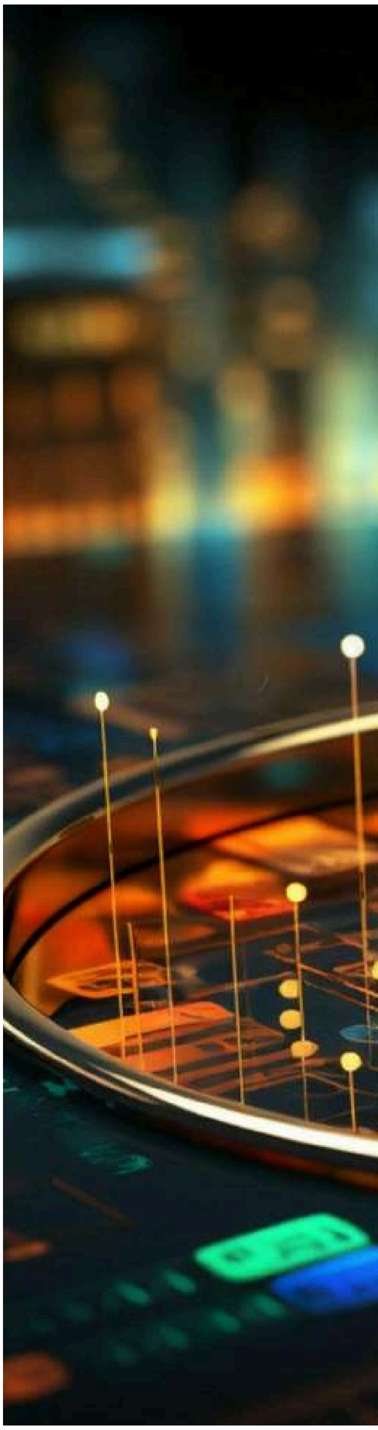
Closing the trade finance gap will require collaboration, innovation, and strategic risk management.

Credit insurance offers a powerful tool for mitigating risk and increasing capacity and the OTD model enables banks to scale their trade finance activities, while private credit provides an alternative source of funding that can unlock liquidity for smaller businesses.

At the same time, digitalisation has the potential to revolutionise trade finance by making it even easier for SMEs to access financing.

When these elements come together, they offer a viable path to addressing the multi-trillion-dollar trade finance gap.

For global trade to thrive in the future, particularly for SMEs, it is crucial that financial institutions, investors, insurers, and fintech continue collaborating to innovate, much like they did throughout this roundtable discussion at ITFA's 50th Annual Conference in Limassol.



ABOUT TFG

TRADE FINANCE GLOBAL

TRADE & RECEIVABLES FINANCE

Trade Finance Global (TFG) is the leading B2B fintech in trade finance.

TFG's data-led origination platform connects companies with innovative trade and receivables finance solutions from over **300 financial institutions**.

We assist specialist companies to scale their trade volumes, by matching them with appropriate financing structures – based on geographies, products, sector and trade cycles. Contact us to find out more.

TFG is a leading provider of educational resources on international trade and trade finance - across app, podcasts, videos, magazines and research.

Attracting around **170k monthly readers**, our publications have a global audience in **187 countries**.

Our specialist content hubs provide free guides, thought leadership articles and features on International Trade, Letters of Credit, Shipping & Logistics, Risk & Insurance, Treasury & FX, Blockchain & DLT, Legal, Receivables and Export Finance.

TFG are strategic media partners for trade conference providers around the world.

TFG also hosts the International **Trade Professionals Programme** with **LIBF**, and funds the Accelerate Scholarship, a grant to help students to pursue a career in trade. Others know us through our Annual International Trade Awards, celebrating outstanding players and contributors in the trade ecosystem.

Through these activities, TFG is democratising trade finance.

CONTACT

Magazine and Advertising
talks@tradefinanceglobal.com

Editorial and Publishing
media@tradefinanceglobal.com

Enquiries
info@tradefinanceglobal.com

Telephone
+44 (0) 20 3865 3705

Website
www.tradefinanceglobal.com

OUR LONDON OFFICES

TRADE FINANCE GLOBAL
14 Hatton Garden
Third Floor
London
EC1N 8AT

TRADE FINANCE GLOBAL
201 Haverstock Hill
Second Floor
London
NW3 4QG

TRADE FINANCE GLOBAL
73 New Bond Street
London
W1S 1RS

BANK OF AMERICA
BPL
citi
enigio
HSBC
TWC
wtw