

# DIGITAL RAPID RESPONSE MEASURES TAKEN BY BANKS UNDER COVID-19

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This document collates common practices undertaken by global banks in the COVID-19 emergency situation and shares some guidance. This is not a “best practices” document and many of the practices described are being improved already. Rather it is a practical reference document with information about measures put in place to continue the flow of trade and trade finance when paper transfer has become difficult or impossible. The COVID-19 pandemic has disrupted shipping, in-person interactions, and travel. As such, alternative procedures are required to settle trade finance transactions. Data is sourced from 2020 data from ICC, ITFA and BAFT members.

## 1. INTRODUCTION

In a global emergency, international trade may slow but it must not stop. Even as COVID-19 reveals the shortcomings of a paper-based trade system, financial institutions (FIs) are finding ways to keep trade circulating. How are they doing it?

This brief shares the ad hoc practices being implemented by FIs under the COVID-19 pandemic. Their approaches are different from every previous global crisis in that responses target the singular problem of how to keep trade flowing when physical interactions are impracticable.

We expect that many of the ‘rapid response’ quasi-digital solutions in place today will be re-examined and likely withdrawn post-crisis. However, if lessons are learned, this experience will positively change how banking and trade finance is originated, transacted and settled.

The experience of rapid digitisation should not go to waste. Both FIs and corporates will need to re-engineer business processes following COVID-19. And we strongly believe that governments will be an enabler for this. ICC has created tools, such as the Digital Trade [Roadmap](#), to promote this long-term digitisation.

The data sources used for this document include two global banking surveys and numerous secondary sources.<sup>2</sup> Respondents include the top 10 global trade banks as well as other banks actively engaged in trade and trade finance globally. Responding institutions span Asia, Europe, the Americas, the Middle East and Africa.

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<sup>2</sup> Primary surveys include: BAFT member survey (128 respondents), ICC annual survey supplement on COVID-19 (233 respondents). Secondary sources include: ICC national committee feedback to ICC official COVID guidance, ITFA guidance papers on e-signatures and e negotiable instruments, and ITFA member guidance on MPA.

## 2. SCOPE OF THE PROBLEM

The problem being faced today is rooted in trade's single most persistent vulnerability: paper. Paper is the financial sector's Achilles heel. The disruption was always going to happen, the only question was, when.

Preliminary ICC data shows that financial institutions already feel they are being impacted. More than 60% of respondents to the recent COVID-19 supplement to the Trade Survey expect their trade flows to decline by at least 20% in 2020.

To help combat the practicalities of trade finance in a COVID-19 environment, many banks indicated that they were taking their own measures to relax internal rules on original documentation. However, only 29% of respondents report that their local regulators have provided support to help facilitate ongoing trade. Without significant regulatory support, the effectiveness of individual banks' measures will be limited.

The pandemic introduces or exacerbates challenges to five parts of the trade finance process. Respondents report immediate and significant issues with:

- > deal origination and distribution
- > negotiable instruments
- > document transmission
- > authorised signatures; and
- > shipping

The specific difficulties FIs face in these five areas are detailed in Table 1. They largely reflect three common hurdles introduced by the pandemic: lack of staff, inability to print and delays in/inability to deliver. According to anecdotal evidence, in April 2020 most banks report having between 75-90% of operational staff working from home. Where available, column 5 includes existing guidance. The papers referred to have been produced in response to requests by bank members of various trade associations.

**Table 1. Pandemic-induced challenges with trade practices and available guidance**

(CATEGORY)	TRADITIONAL TRADE	SUPPLY CHAIN FINANCE	LOGISTICS	AVAILABLE GUIDANCE
DEAL ORIGINATION AND DISTRIBUTION	Inability of clients/banks to obtain original and authorised signatures.			<a href="#">ITFA Guidance Paper on use of e-signatures</a>
	Inability of clients/banks to submit applications.			<a href="#">ICC Guidance Paper on impact of COVID-19 on trade finance transactions subject to ICC rules</a>
	Misconception that participation agreements require physical signatures.			<a href="#">ITFA member email confirming physical signatures not normally needed</a>
NEGOTIABLE INSTRUMENTS*	Jurisdictions requiring wet-ink signed payment obligations.			<a href="#">ITFA Negotiable Instruments Paper</a>

(CATEGORY)	TRADITIONAL TRADE	SUPPLY CHAIN FINANCE	LOGISTICS	AVAILABLE GUIDANCE
DOCUMENT TRANSMISSION	Witnessing on security documents/deeds.  Inability of the Issuing bank to receive presentations.		Availability of couriers in some geographies leading to inability to deliver documents.	<a href="#">ICC Guidance Paper on impact of COVID-19 on trade finance transactions subject to ICC rules</a>
	Delivery, handling or examination of physical shipping documents due to most businesses operating remotely, reduced staff, local restrictions on movement, fear of using transit system by both mailroom and operations staff.			<a href="#">ICC Guidance Paper on impact of COVID-19 on trade finance transactions subject to ICC rules</a>  <a href="#">ITFA Digital Negotiable Instruments Initiative</a>
	Challenges in validating authenticating /original documents.			<a href="#">ICC Guidance Paper on impact of COVID-19 on trade finance transactions subject to ICC rules</a>  <a href="#">ITFA Digital Negotiable Instruments Initiative</a>
	Electronic Bills of Lading: not recognised in most jurisdictions (hence must be in paper form)..			<a href="#">ICC survey on the legal status of eBLs</a>
	Centralisation of country operations if processing unit is in a lockdown country.			
AUTHORIZED SIGNATURES	Inability of clients/banks to obtain original and authorised signatures.			The use of UNCITRAL Model Laws  <a href="#">ITFA Guidance Paper on use of e-signatures</a>
SHIPPING			Inability to dock at ports and unload ship cargo.	
	Missing contract deadlines due to lack of available cargo/air space/tank space.			

Source: responses to BAFT and ICC member surveys, individual input, ITFA and ICC guidance  
\*the negotiable Instruments category also includes payment obligations

The difficulties faced by banks are a function of the nature of trade. Many of the issues impacting banks in fact originate with the client and then affect multiple stakeholders—including shipping companies, customs and others. This highlights the fact that bank-based solutions alone cannot solve the problem.

### 3. COMMON PRACTICES AND THEIR EVOLUTION

FIs responded quickly to the supply chain disruptions of COVID-19. As of April 2020, 71% of respondents to an ICC survey report implementation of COVID-19-related measures to support customers. These measures support customers even as FIs themselves are disrupted in their business practices. The depth of FI disruption is illustrated by anecdotal evidence from BAFT's Trade Finance Committees calls. FIs report that most have 75%-90% of operational employees on mandatory work from home. The others are placed on rotating shifts in order to receive, print and ship physical documents that remain a key part of trade finance flows.

The ad hoc practices banks have put in place fall into four categories:

- > Expanded existing digital channels
- > Electronic documents
- > Electronic signatures
- > New business processes and controls

The specific practices FIs report using are detailed in Table 2. The measures described herein, including new business processes and controls, are all temporary and put in place as such. There are several significant changes of emphasis in the columns that have been observed over the course of the pandemic. We devote some space to how practice around signatures and documents have already evolved.

**Table 2. Common adjustments to workflows in the pandemic (as of April 2020)**

EXPANDED EXISTING DIGITAL CHANNELS	ELECTRONIC DOCUMENTS	ELECTRONIC SIGNATURES	NEW BUSINESS PROCESSES AND CONTROLS
Greater use of email	Advice from customs authorities: US, EU, India and others accepting electronic phytosanitary certificates.	Waiving the need for wet-ink customer signatures.	Amending agreements to allow for all parties to agree to use electronic documents.
Third party platforms	Advice from domestic regulator: e.g. Bank of Algeria advising all authorities and banks to use electronic documents. Indian banking association advising the same.	Email in place of a signature usually by attaching an unsigned document to the email and through appropriate wording, making the typed name in the email apply to the document.	Include wording on PDF presentations and delivery of LC instruments through PDF with E-signatures due to remote working of staff. <sup>3</sup>

<sup>3</sup> It should be noted that, under documentary credits, the delivery of documents by, or on behalf of, a beneficiary is outside the scope of the UCP 600. In addition, the delivery of documents to the applicant, by the issuing bank, is also outside the scope of the UCP 600.

EXPANDED EXISTING DIGITAL CHANNELS	ELECTRONIC DOCUMENTS	ELECTRONIC SIGNATURES	NEW BUSINESS PROCESSES AND CONTROLS
	PDF presentation of documents under certain SBLCs with proper protocols is permitted.	Temporary (e.g. 90 day) business approved wet ink signature exception (i.e. exceptionally not required) for certain jurisdictions leveraging a letter of indemnity signed by client to use emails in lieu of wet ink signatures. This can be applied to both transaction requests as well as select client documentation, such as agreements to use electronic channels.	Creative staffing – Senior Management permitting critical staff (who are able to commute) to travel to designated office locations to handle physical documents. Critical staff to claim reimbursement of all expenses and are given additional monetary incentives.
Incorporating the use of electronic signature solutions into existing processes (for documentation).	Custody of existing documents has been shifted to other countries who are supported (adjusted addresses under import LCs are presented with urgent swift messages).	Photo of a signature (since customers don't have scanners, need to use phone).	
		Software with ability to create electronic signatures (e.g. Adobe Sign).	Authenticating documentary presentation examinations via the use of scanned documents (accompanied by an authenticated SWIFT message).
			Staff rotation and flexible schedules to attend to physical shipping documents.
			Paperless approvals (i.e. via email or e-signature) for the processing of both guarantee issuances and funded transactions.
			Setup of crisis governance to ensure any deviations from process frameworks is risk assessed, approved and documented.
			Remote access granted to more employees.

EXPANDED EXISTING DIGITAL CHANNELS	ELECTRONIC DOCUMENTS	ELECTRONIC SIGNATURES	NEW BUSINESS PROCESSES AND CONTROLS
			Adopting eUCP Version 2.0 and eURC Version 1.0 as operating models and configuring internal processes for greater use of these rules.

Source: responses to BAFT and ICC member surveys, individual input

The first trend is an evolution in the practices related to electronic signatures. For those transactions that were nearing completion at the outset of the lockdown period, the objective was to find immediately implementable solutions that were within the grasp of workers with limited hardware, software and IT skills. As email was generally available to most people, “signature by attached email” was widely used. Within a relatively short period, greater familiarity with digital signatures/certificates led to a greater use of these as they are, broadly, more robust and secure. The next phase in this evolution is a more intense examination of, on the one hand, the legal requirements to ensure the optimum legal solution e.g. qualified legal signatures under the European eIDAS<sup>4</sup> regulations and a wish to integrate these tools into more holistic Enterprise Resource Management processes with as little human intervention as possible.

The second is in the practices related to electronic documents. This is moving forward most easily in geographies where local authorities have issued official guidance. Guidance is necessary because legislation allowing for digital documentation is considerably less advanced than that related to electronic signatures. It must also deal with formalities at both a legal and practical level. Electronic documents sit at the uncomfortable intersection of 19<sup>th</sup> century legislation and unsophisticated 21<sup>st</sup> century operators. In contrast to electronic signatures, which many countries in the world at least nominally accept, progress on electronic documentation lags considerably.<sup>5</sup>

A third trend is in the rollout of digital solutions. Where existing digital platforms are in place, FIs report scaling them up. We expect that this is what 53% of ICC survey respondents mean when they report rolling out new digital solutions in response to COVID-19. There is increased focus on the more rapid adoption of blockchain, the digitisation of documentation and automated processing and handling software and platforms.

## 4. WHAT SUPPORT STRUCTURES ALLOWED RAPID RESPONSE?

The rapid deployment of digital solutions of course introduces new risks into the existing trade processes. Survey respondents mentioned the four categories (Table 3). Understanding these risks makes it clearer what authorities should do to ensure that domestic regulations allow for digital responses going forward.

Following the table, we discuss the critical role played by both mitigants and official guidance in allowing banks to divert from customary business practices.

<sup>4</sup> EU Regulation No.910/2014 of 23 July 2014

<sup>5</sup> In the case of electronic documentation, a functional equivalence approach is a powerful strategy as it focuses attention on the, often false, comfort of paper. This approach has been advocated by the UNCITRAL Model Laws on e-commerce which argue that the purposes and functions of paper can be fulfilled by electronic equivalents and provided by a coherent system for achieving this. The ICC eRules (eUCP Version 2.0 and eURC Version 1.0) also took note of this.

**Table 3. New risks introduced by rapid response digital measures**

DUE DILIGENCE	OPERATIONAL	FRAUD /SECURITY	FORMATS
AML/KYC	Legal risks	Data breaches with work from home and use of non-secure channels such as emails	All stakeholders need to be ready to accept the electronic format.
Sanctions issues	Additional errors via digital channels	Heightened risk of fraud	Format of the electronic record needs to be readable by all parties.
	Unstable Internet connections, IT/data centre risks	Protection of customer information in extending remote access to all staff instead of select staff only	Definition of “original” as originality doesn’t exist in the digital world.
	Clarity is needed on recent additions made to bills of lading in respect of the impact of COVID-19, and the potential for the carriage of cargo to be disrupted or delayed. Cargo may not be loaded on the intended vessel, and may be discharged in an alternative port without notice. The ICC Banking Commission is formulating an appropriate response.	Copy documents under LCs are a fraud concern	Digital formats covered by eUCP Version 2.0 rather than UCP 600.

Source: responses to BAFT and ICC member surveys, individual input

The ad hoc practices detailed in this document were not enacted in isolation. In order for unconventional measures to be undertaken, most measures were accompanied by two types of enabling activities. The first is the enactment of mitigants, which are measures undertaken to increase the level of trust in the document.

A second enabling activity has been regulatory guidance. In the experience of ICC, requests were submitted very early on for guidance about missed deadlines written into trade rules such as UCP 600. As a response ICC has issued, as of April 2020, a number of guidance documents<sup>6</sup> including one specifically addressing the impact on trade finance transactions.<sup>7</sup>

6 <https://iccwbo.org/publication/icc-memo-to-governments-and-central-banks-on-essential-steps-to-safeguard-trade-finance-operations/>  
<https://iccwbo.org/media-wall/news-speeches/icc-publishes-covid-19-business-continuity-guide/>  
<https://iccwbo.org/publication/icc-force-majeure-and-hardship-clauses/>  
<https://iccwbo.org/content/uploads/sites/3/2020/03/2020-forcemaieure-commcontracts.pdf>

7 <https://iccwbo.org/publication/guidance-paper-on-the-impact-of-covid-19-on-trade-finance-transactions-issued-subject-to-icc-rules/>

## Mitigants and Controls

The above digital response measures require mitigants and additional controls. While FIs recognise the critical need for rapid response to financial crimes or suspicious activity, many of the temporary measures are not in line with stated contractual requirements.

Some examples of mitigants or controls include:

- > Call back mechanisms (bank teams actively calling corporates)
- > Relevant clauses added to, or modified in, documentary credits or transactional documentation to protect the parties
- > PDF documents accompanied by authenticated SWIFT messages
- > Alternative arrangements with transacting parties when documents cannot be delivered (see [ICC paper on impact of COVID-19 on trade finance transactions subject to ICC rules](#) for additional guidance)

BAFT survey data offers additional detail on how banks are mitigating risks in business continuity plans (BCP). For all types of instruments in the survey, less than 1/3 of banks now require paper originals. The rest are allowing submissions via fax, email or third party software.

Those digital submissions are often verified by return phone call. As an example, for new business agreements, more than two thirds of respondents are accepting them digitally by fax, email or third party software. Of those, nearly three quarters of banks are calling back to confirm faxes and 68% are calling back the signer to confirm email submissions. In both cases less than 40% require the person who answers the call to be an authorised representative.

## Guidance

Regulatory guidance and advice have been critical to facilitation of digital practices in certain geographies. The challenge with electronic documents—such as electronic Bills of Lading—is whether or not they are legally valid. The answer requires advice from a local authority or government. But as of April 2020, there has been limited regulatory guidance issued. ICC survey respondents report that only 30% of local authorities or governments have provided any regulatory guidance on e-enabling of the documentary credit processes.

As an example, a proactive approach has been taken by the Bank of Algeria, which issued advice to member banks. If there are local regulations regarding use of electronic documentation, advice may not be needed. However, in emerging economies, the preference is for specific local regulatory advice.

Related to trade finance, Indian, US and EU authorities, among others, have begun encouraging electronic customs document submissions.

In concluding this section, it is important to note that most banks also report that dispensations have been well received by clients. Clients are appreciative of the bank's ability or offer to use alternative means to support their transactions and maintain the flow of global trade.

## 5. HOW MUCH COULD WE CHANGE TRADE FINANCE?

The question that you may be asking is why weren't these digital measures put in place already? There are three answers: cost, complexity and networks.

First, cost of both implementation and onboarding. While pre-existing digital measures like DocuSign or other platforms can be expanded, such products are not free of cost. Additionally, the use of digital platforms often involves training staff and customers how to use them. This often is phased in, as immediate implementation has the risks described above.

Second, some parties will require paper originals. In a trade transaction there are many counterparties and if a single one requires the original to be on paper for regulatory or legal reasons, then the process has to be, at a minimum, partially paper from origin. Understanding which clients and counterparties will require paper originals is a lengthy process.

Third, a trade transaction often interacts with insurance. If insurance is required, it should be noted that many underwriters are heavily paper based. Any successful long-term digital solution must be able to connect networks without require a centralised operator.

The following are some of the lessons to be learned from the first two months of the pandemic:

- > It is possible to go digital in a crisis using ad hoc measures.
- > Official guidance and mitigants are critical in the early stages.
- > Now that we know what needs to be done, cross-industry working groups are needed to make the regulatory changes happen.
- > Regulatory and government guidance is required in order to update and align laws and legal frameworks.
- > Adoption of the UNCITRAL Model Law on electronic transferable records could act as a catalyst.<sup>8</sup>
- > Mending together multiple existing single party platforms works in the short term but connecting multiple counterparties through standardised platforms is a more sustainable way forward.
- > The simplest way to resolve most issues is to promote dialogue between the commercial parties, as well as between the banks.

ICC has some tools to help. The [ICC Digital Trade Roadmap](#) is designed to help with advocacy with regulators, governments and your employer. Additional guidance will be forthcoming.

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<sup>8</sup> [https://uncitral.un.org/en/texts/ecommerce/modellaw/electronic\\_transferable\\_records](https://uncitral.un.org/en/texts/ecommerce/modellaw/electronic_transferable_records)