THE CONDUCT OF RISK MANAGEMENT IN TRADE FINANCING PROCESSES: EXPLORING THE PROSPECTS AND CHALLENGES IN FINTECH ERA

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Abstract

Purpose of the study: To investigate the conduct of risk management in trade financing processes as well as to identify potential issues in risk management relating to fintech in trade financing. At the same time, this study had the opportunity to explore all possible prospects and challenges that this new era of digital could offer to the banking industry.

Methodology: The study employed an interview with experts for the means of data collection with the aim of gathering a wide range of information and opinion from the industry experts on the subjects of this study. The data collected from interview transcripts are analysed contextually based on thematic analysis and framework analysis.

Main Findings: The findings suggested risk management in trade financing processes is critical due to the nature of cross-country transactions and the current era of fintech has further escalated the risk exposure to fintech-related types of risk. Strategies to improve the current conduct of risk management in trade finance processes have been identified where opportunities and challenges can be managed effectively.

Applications of this study: Findings from this study will give valuable insights to the banking and finance industry’s practitioners, especially those who are directly involved in trade financing processes as well as the top management of the banks to further improve current risk management practices in particular catering for the new fintech era. This is essential in facing the wave of the 4th industrial revolution.

Novelty/Originality of this study: This study has contributed to the limited number of published studies in this area. Most importantly, the attempt to investigate the current practice of risk management and identify actual issues and problems in trade financing processes through financial technology platform has not been researched and explored before.

Keywords: Risk Management, Trade Financing, Fintech Era, Digitization, Technology Savvy, Banking.

INTRODUCTION

The future and sustainability of the banking and finance industry are highly depending on how they would respond to the rapid change in the financial world. Globalization and the informational technology revolution that has moved into a new era of Fourth Industrial Revolutions (4IR) have expanded the scope of financial institutions to become more dynamic, competitive and complex than ever before. The fast changes towards digitization in banking services, in particular, has magnified the challenges which have positioned the banks to buckle-up with the current and latest management skills as well as up-to-date operational systems in order to cope with this new era.

Due to the new era, the financial industry including Islamic banking has equipped with advanced technology and this movement can be seen from online banking and mobile banking. Berger (2003) examines technological progress and its effects on the banking industries. In his view, technologies could help to facilitate the services sector to increase its efficiency and become one of the factors to become more competitive. Lavrov (2011) highlighted the importance of innovative financial technologies in the banking industry. Consequently, the clients of these banks can observe their accounts via online, monitor shares prices, card expenses, performing the online transfer and obtain online investment advice. However, when the business environment becomes complex, so does the risk associated with it.

One critical factor that will determine the fate of survival and continuous growth is how well the banks manage their risk exposures as a result of providing financial services. The processes and approaches in risk management would enable financial institutions to be in control facing undesirable risks where at the same time can take advantage of the business opportunities as the outcome from the desirable ones. The regulators and supervisors are concerned about the processes involved in risk management used in financial institutions hence it reflects the level of efficiency and stability of the whole financial systems. However, this industrial revolution 4.0 has exposed the banks to a whole new risk environment, the digitization risk, the inevitable result of a convergence of technological capability, commercial drivers and market adoption. This current state requires more rigorous risk identification and management systems along with a proficient internal control system, especially for international trade and trade financing. For instance, risk reporting is extremely important for the development of an efficient risk management system.

Trade financing is among the most important services provided by the banks. WTO (2019) highlighted that trade finance serves two fundamental purposes which are credit support and risk mitigation facility. Thus, it has become the heart of
international trade where without it, the growth and development of the global economy will be hampered (WTO, 2016). The banks have forced to make strategic decision-making responding to this new financial technology (FinTech) era, fulfilling the requirements of digitized channels and preparing to move market share to these new normal providers that have already captured bigger market segments to respond to the international market evolution. The conduct of trade and trade financing had long been supported by trusted processes and familiar proposition. In fact, in Malaysia trade financing received an equal share in terms of its importance adding value to the growth of Malaysia's economy. Commercial banks and Islamic banks are not the only financial services provider that extends trade financing services, Export-Import bank of Malaysia known as EXIM bank plays the same important role where its main objective is to support local businesses going international. Exim bank is a wholly-owned subsidiary of the Minister of Finance Incorporated and was developed to promote reverse investment, export activities for strategic sectors to name a few like capital good, shipping and infrastructure ventures as well as facilitating Malaysian businesses penetrating to new markets particularly, cross-borders markets (EXIM Bank, 2019).

However, this fintech era has positioned most of financial services providers in an uncertain fate whether or not they could serve the trade financing needs of the businesses more efficiently and not to mention on the new significant threat of disintermediation where many commercial clients shifted away from traditional instruments to trade on open account terms with minimal trade documents requirements. Thus, the application of increasingly effective, technology-enabled solutions to trade and trade financing certainly poses the latest challenge to the trade banking sector not only locally but also worldwide. Furthermore, digitalization is the main forte in this fintech era, it will be quite a challenge to the financial industry with the increasing changes of appetite of the end-user from traditional trading and banking to fintech platforms. The demand for the simplicity of processes and discounting on waiting time would force the financial institutions (FIs) to have and to use up to date fintech platforms while at the same time leave them vulnerable to whole new fintech risk which is also known as cyber-related risk such as fraud transactions. Accordingly, IIF/Mckinsey (2017) stated that having full awareness and a complete understanding on what is the meaning of digitalization and simultaneously be digitally equipped would help businesses and industry players such as FIs to survive the tsunami of financial technology upgrading.

Risks and Challenges

The fact that banks or financial institutions are merely acted as an intermediary to handle people’s money, take the risk treatment not only vital but also extra complicated. The current treatment of risk in the financial institution is still evolving and expanding due to technology upgrading. However, when it comes to the digital era where new challenges and new risks are expected to make the risk management process for banking and financing even more complicated and complex. Obvious strategies to catch up and survive this digital era, all banks and financial institutions need to relook its risk appetite and its risk mitigation approaches that are most suitable to sustain in the market.

Both Islamic and conventional banking is equally important and remains critical in providing varieties of banking products and financial services, serving a wide range of end-users and types of businesses. Known as one of the fastest-growing sectors in the economy as well as cross border financial markets, they will continue to expand at an even faster growth in the future. Commendable progress that has been achieved globally spanning across 75 countries, has witnessed significant growth in Islamic banking. By upholding to the fundamental principle of Shariah-compliant practices, profit and loss sharing as well as promoting trading activities that generate fair and legitimate profit, Islamic banking stays competitive and unique (Abdul Kader, 2015).

Nevertheless, how long could Islamic banking maintain its sustainability and healthily competing given the challenges in the digital age is transporting into the banking industry? Thus, this digital era is co-existence with the financial technology (fintech) era. This current state has made trade financing processes in both banks equally vulnerable and exposes to digitization type of risk. The risk is escalating when considering trade financing is involves with many documentations for its financing means. Obviously, several elements need to be considered such as customer expectations, competition and operating expenses.

Customer Expectations

Going forward, customer expectation has become more challenging. They expect more intuitive experiences; they expect to gain excess to service at any time of the day on any device and instant decision making as well as customized propositions. To be able to fulfill and deliver all these expectations in trade financing processes, banks need to redesign their business model according to customers’ perspective and simplify the processes. However, it is critical to note that, simplicity in the process will be accompanied by new risks. Hence, this effort will be co-integrated with the risk function where it will become the most important function for the trade financing and banking business throughout. These increases growth of innovation across the industry and investment in financial technology (fintech) start-ups has and will expose the Islamic banks to more challenging issues. On this ground, where are Islamic banks stand on this? Are they ready and continue to win the fight for their customer relationships in this fintech era? An interesting fact to ponder about!
Competitive Rivals

According to Gutierrez(2019), to stay competitive among their rivals, banks need to ensure effective decision making based on big data and advanced analytics. Few other elements must be put in the forefront such as staying connected and relevant to the customers and the whole banking chain, keeping up to date with the automation and technology and of course continuously being innovative in product offering as well as develop a strategic business and operating models.

The banking institutions are facing challenges and competition not only from their counterparts but also from the newly start-ups with high technological leaning as well as companies such as mobile phone carriers, which are on the lookout for new lines of the income stream in the financial services sector. The new riders, known as FinTech companies offered their specialized services in foreign exchange, lending, access to capital markets, financial advisory services etc, while the mobile phone carriers have started to offer payment services using these devices. As a point of concern, most of these new entrances have started offering financial services similar to those available in traditional banking at a lower degree, less-uniform or simply non-existent regulations as compared with banking institutions (Cuesta et al., 2015; Aziz et al., 2019).

The change in customers’ preference who demanded seamless, personalized and convenient banking experience coupled with advancement and innovative technology had forced banking institutions to urgently confront digitization needs to remain at the competitive edge. The digitalization of banking services through online or mobile devices increased the ability to respond swiftly to the demands of digitally savvy customers. With the increasing number and pace of innovative technology offered by the Fintech players, banking institutions are facing challenges to stay relevant with the ‘universal banking model’ that typically offered transactions banking, investment and commercial transactions alongside the wealth and asset management (Cortet et al., 2016).

Cost and Operating Expenses

The spread of innovative information technology (IT) solutions that involve directly with banking customers has been growing so fast driven by extensive recognition of technological advancement and innovations on the IT gadgets such as smartphones, computer tablets, touch screen devices, etc. However, studies conducted on innovative services, such as personal finance management, mobile payment, crowdfunding and so on, revealed that these innovations are normally out of the scope of the IT systems provided by banks (Kang, 2018; Rabbani and Khan, 2020).

Despite the huge amount has been invested by the banks to enhance their IT infrastructure, develop internal system applications, websites and online platform to support their extended business spectrum, these systems mainly focus on operational functionalities around established banking products. Alt and Puschnmann (2012) opined that this existing system that provides electronic banking platforms for customers is merely an extension of physical counter services, which formed part of customers' retention strategy rather than technological advancement to the added value chain of banks.

In this digital era, the need for upgraded technology infrastructure is imperative moreover in the banking operations given the need to maintain strong relationships and as a means to retain customers. Furthermore, nowadays, the way people carry and conduct their living, be it social, personal as well as commercial and economic activities have changed with ramifications for the manner they interact and communicate that matched their lifestyle. Technology infrastructures are not just critical for the running of banking business, but also vital for banking innovations and future banking structures or business model. Many banks are struggling to respond to digital threats and facing a challenge to seize opportunities in an increasingly digital marketplace. The legacy IT systems and unstructured legacy processes often weighed down their capacity to experiment with digital innovation (Sia et al., 2016).

The sophistication of technology systems is defined based on their capability and ability to manage, organize, and analyze huge amounts of data with consistency and meticulousness. A huge amount of investment is expected to deploy the system that is capable to undertake more complex analysis of information through the identification of trends and patterns in large data sets which could later drive and structure the decision-making process. In addition, given the increasing sophistication of technology offerings, the trend to embed risk management as part of technology solutions is inevitable for reasons of both efficiency and effectiveness (Bamberger, 2009; Dalila et al., 2020).

As a matter of fact, the cost of investment for technology and system enhancement or deployment of new technology infrastructure contributed a major item in the banks' balance sheets. Notwithstanding this, adequate provision for this cost is required given a large amount of recurring IT spending shall be estimated for the upkeep of major data points as well as telecommunications infrastructure (Alt and Puschnmann, 2012). As digital change and technology innovations are unstoppable and constantly responded to the forces of globalization, banking institutions need to keep pace with the rapid integration of new technologies or move with fast-changing environments of business regardless of the cost incurred.

Yes, on the surface, having simplification, standardization and digitization would help the bank to minimize a substantial amount of operational expenses. However, on the other hand, to have an up to date in the house system, a large amount
of investment is needed. Hence, the bank needs to relook strategically on their capital budgeting and return on investment.

In summary, it can be said that as the fintech revolution speeds up, there are also fundamental challenges to its progress such as privacy and maintaining the secrecy of user data (Okamura and Teranishi, 2017; Park and Park, 2017). The study by Park and Park (2017), Kim and Hong (2016) and Gai et al. (2017) state that many systems require the user to provide security questions when they access financial services from their mobile devices. This authenticity method that liked to the users provides another line of defence for hackers. If the certification of user authentication is inadequate, opening a greater chance to a third party to violate the system (Kim and Hong, 2015).

Fraud is another critical issue in online financial services. As of today, there is a wide range of methods, algorithms and fraud detection systems. However, with many options, it will create further complications in detecting them let alone invent a system to discover the new types of fraud provided by new emerging fintech companies (Kim and Hong, 2015). Many approaches and exercises have been taken to address this issue, such as investing in antivirus software, firewall and passwords. However, these efforts are seemed helpless because cybercrime is escalating (Balan et al., 2017). Thus, is best if the companies could conduct a simulation of the feasible scenario to provide information and intelligence to their internal control system to avoid any unnecessary attacks. By investing more in security, banks are able to protect their most valuable asset, which is “trust” by the customers.

Opportunities and Future Prospects

There are many Fintech activities that could aid the banks in trade financings such as payment and billing technologies, money transfer/remittance and blockchain. Under Fintech, payment and collection companies become faster and accurate because the most transaction is in the automated form (computerized). All the information on business transactions is in real-time processing.

Trelewicz (2017) examines the importance of big data on the financial sector, discussing the obstacles associated with it and the future evolutions of big data technologies. The big data is the buzzword used to describe the methodologies and technologies used to collect process and analyze a complex set of data consisting of structured and unstructured data. The financial services sector is probably the most data-intensive sector especially banks which have an enormous amount of customer data. Data such as deposits, withdrawal, credit applications, customers' profiles, online transactions making it a target by other Fintech players. However, since these financial institutions have already invested heavily in these data, it cannot permit these data to be exploited by others. There are many applications suggested by Trelewicz (2017) especially applications that are able to increase the amount of data to be processed real-time data. Tao et al. (2017), investigate how the financial data and loan behaviors of the operations of one of the largest Chinese online P2P loan platforms. Basically, these streams of data could aid these financial institutions in making a better decision. Similarly, Paul et al. (2016), stated that the surge in big data analyses by banks permits them to evaluate credit risks more precisely. Technological evolutions allow banks to process these data at a lower cost for example machine learning gives computers the ability to learn and use as much data to look for patterns and trends.

The technology also provides solutions to facilitate processing payments for the banks, for example, using a mobile payment system. Additionally, now any money or fund transfer can be made through platforms between banks in different countries in a short period of time (Gold and Kursh, 2017). Many other applications or systems that provide consulting via web-supported with Robo-advisors in aiding consumers to select the products, investments, and shares (Nikiforova, 2017). All these activities have the potential to reduce operating costs as well as increase the quality and transparency of financial counselling to consumers. Nonetheless, there are questions on how the technology for robotic advisors has evolved? Another interesting question is whether they can totally replace humans and make better judgments than human for example selecting better clients (credit rating).

Another view from Hawlitschek et al. (2018), discussed fintech's activities such as in the Payments/Billing, Transfers/Remittance, Crowdfunding, and Cryptocurrency can be of great interest for new types of platforms and digital services, especially for financial institutions and also Fintech players. Based on blockchain technology, peer-to-peer platforms can be implemented as reliable interfaces for shared economy ecosystems or trust-free systems.

METHODOLOGY

Selection of the participants

The study used a purposive sampling method to appoint experts (Mays and Pope, 1996). They were identified based on their extensive experience dealing with trade financing activity and system. Their diversity of expertise and affiliations are years of work experience in the fields of trade financing are also been considered. Some experts were interviewed face to face and some others were contacted through email by one of the researchers. The invitation email to participate in the study contained the background and the purpose of the study. Participants also sought to propose the interview time and date. The researcher also emailed the suggested questions to be asked during the session to get the participant ready with the contents required. The actual number of participants contacted was ten, however, only five gave their responses to be interviewed. All the five participants contributed rich data to the study to develop proposed themes for
the trends in fintech activity of trade financing in participating banks. The following Table 1 summarised the important demographic of the selected participants who show their credibility as a participant in the study:

| Table 1: Important Demographic of Expert Interview’s Participants |
|---------------------------------------------------------------|
| **Highest Education** | **P1** | **P2** | **P3** | **P4** | **P5** |
| Diploma or equivalent | Diploma or equivalent | Degree | Diploma or equivalent | Degree |
| SPM/STPM or equivalent | 6-10 years | More than 20 years | 11-20 years | More than 20 years | More than 20 years |
| Working Experience | Executive | Executive | Senior Manager | Senior Manager | Top Management |
| Current Position | Group Transaction Banking | Global Trade Centre | Trade Risk and Compliance | Trade Services | Trade Operation & Enablement |
| Current Department in the Bank | | | | | |

Source: Researchers

To reach into (sub)-themes emerged from the interview; the researchers took advantage of the field-notes made during each interview with previous interviews. After successfully received rich data from five interviews, the data collection was stopped, and several themes were emerged from the sub-themes observed. Data collection was conducted once, hence it is the limitation of this study that is focused only on selected participating banks. Hence, generalization is not recommended.

**Interviews**

Fintech activity of trade financing in commercial banks has never been studied previously. Hence, expert interviews were considered the most suitable tool to collect data. The interview also meant to gain insights into the views and experiences of individual experts. A common semi-structured interview protocol was developed. It contains a set of open-ended questions for gathering expert views to discuss the current status of fintech in trade financing, the platforms available and used, and the risk exposures observed and experienced in trade financing activity. The semi-open structured questionnaires were self-developed by the researchers based on the literature and prior discussion with the officers involved in trade financing activity. The interviews were audio-recorded (for face to face) and some were written data, transcribed verbatim by one of the researchers. Interviewees were finally asked by mail for verification of the important contexts of the transcript.

**Method of Analysis**

The research adopted thematic analysis by conducting a manual tabling process in Microsoft Words 2016. The thematic analysis begins with the coding process where it involves five phases. The coding process is important to create established, meaningful (sub-) themes and headings. The researchers began the first phase by reading through the transcript and developed familiarity with the data. Secondly, the transcripts were read more thoroughly, then initial codes of themes were created as they emerged in the data. The coding protocol was applied by referring to the field notes made by the interviewer. Finally, sub-themes and headings were identified. The two phases; phases two and three were repeatedly done with new sub-themes and headings were added (Braun and Clarke, 2014).

To present the results, researchers have chosen to present every sub-theme using illustrative quotes as suggested by Anderson (2010).

**Ethical Considerations**

Participants were approached personally by the researchers and were volunteered to participate in the study. The consent of the respondents was obtained before each interview session. No intervention from the top management of the banks and no data were collected without prior approval from the individual participant. During the interview session, the interviewees were allowed to stop the interview session at any time. Prior to conducting the interview session, the researcher explained the purpose of the study. The participants also are required to fill up a consent form for participation in the study. Confidentiality policy was informed to the experts and researchers highlighted that experts’ opinions do not represent their banks’ opinions. All the transcriptions were shown and verified by the respondents for research ethical consideration purposes. All five experts preferred to stay anonymous, and the quotes were coded based on numbers. Only the background information of the study population and their level of experience related to the study are provided.

**DISCUSSION / ANALYSIS**

The study managed to interview five experts who involved directly with fintech activity in trade financing.

**General opinion on the need for risk management**
In general, all respondents are of the opinion that risk management is important especially for trade financing facilities in an Islamic bank. Participant 1 (P1) and Participant 3 (P3) strengthened their views by considering that risk management is in fact not only important but also very crucial to protect the bank's interest and ensure its profitability. P1 and P3 for instance stated:

"Risk management is crucial for a financial institution to ensure profitability is secured by foreseeing and avoid potential losses to the institution."

(P1, 6-10 years’ experience in Islamic bank)

"Risk management is very crucial in protecting the bank's interests as in day to day operations, banks are exposed to risk."

(P3, 11-20 years’ experience in Islamic bank)

Participant 5 (P5) furthermore stressed the reason why risk management is important by saying:

"Risk management is important to identify a potential problem before occur so that risk handling activities may be planned and invoked as needed."

(P5, >20 years’ experience in Islamic bank)

The noticeable finding from all the above conversations is the seriousness and worrisome of all the participants of the need for proper risk management planning in their banks mainly in the trade financing activities where it involves inter-banks and inter-countries activities. It is not only about the performance and profitability of the banks, moreover, but it is also about forecasting problems and losses incurred by the banks.

**Risk Exposure and its Management in Trade Financing**

Trade financing which involves among others import and export activities mainly in international trade has a huge impact on risk management function. The impact would include both positive and negative impact i.e. the prospects and challenges. The opinions of all the participants whom most of them possess more than 20 years' experience in Islamic banks have proven and strongly support the above statement. P1 has an opinion that:

"Risk management in trade financing is important to mitigate the risk involved in domestic and international trade."

(P1, 6-10 years’ experience in Islamic bank)

While P1 generally observed the importance of risk management in trade financing in both local and international trade, P3, P4 and P5 specifically highlighted the types of risks that might be exposed by the bank in trade financing. P3, P4 and P5 deliberately said:

"In trade financing, risk management is of utmost important. It consists of many types of instruments such as import-export documents, guarantees and as well as financing. Since trade finance involves either local or cross-border, risk management in trade finance is very important since we may not aware of where the risk might come. The types of risk that trade finance might be exposed to country risk, political risk, operational risk, credit risk, and market risk."

(P3, 11-20 years’ experience in Islamic bank)

"It is important for trade finance operation to have risk management since trade finance operation handles all commercial and financial related transactions which must be verified and thoroughly screen for authenticity and must not involve money laundering or terrorist financing."

(P4, >20 years’ experience in Islamic bank)

"Risk management in trade finance operation is very important to the bank in managing its exposure to losses or risks such as technology risk, product risk and operational and etc."

(P5, >20 years’ experience in Islamic bank)

The observation of all the above participants is not only about the existing state of risk in trade finance; moreover, it goes beyond the future risk that might be faced by trade finance activities especially when fintech comes into the picture. Technology risk is a major issue when it comes to the digital era. With the expansion of fintech which affects other technological platforms for trade finance such as trade finance software, payments, financing, foreign exchange and remittance (Muhammad, N.A et. al, 2018; Majid et al., 2019), the exposure to risk also is expanding. Moreover, the borderless system and the introduction of bitcoin experienced by most of the banks today might bring more troublesome in the future if the risks are not managed accordingly.

**Participants' Ranking and Suggestion for Risk and Challenges in Trade Financing in the Digital Era**

The level of risk exposures for trade finance facilities depends on the types of facilities involved. Currently, in the industry, not less than thirteen trade finance facilities offered to the customer. When the interview participants were
required to rank the level of risk exposure of each facility, most participants ranked most of the products as high-risk exposure. They also suggested, in conclusion, three major themes for the implementation of effective risk management in the listed risky area namely as pre-approval screening, staff training, and post-investigation activities like audit and consultant’s check. P1 suggested review, audit and staff training for effectively manage the risky areas as listed in the ranks. P5, however, more consider the operational lapses where it could occur before, during and after the approval process is completed. P4 who ranked invoice financing for both import and export service of trade finance as very high risk suggests a few important points leading to the themes. To manage the above situation, as an experienced banker he suggested:

“The risky area as ranked above especially the invoice financing which I ranked as very high risk is suggested to go through a proper screening process when screening the applicants. In addition, training and awareness of risk compliance control are highly required. Periodic external consultant updates of market trends and risk hot spots to focus should also be in place. Moreover, internal audit specific on risk control and effectiveness of process and screening should be given due attention.”

(P4, >20 years’ experience in Islamic bank)

P3 who also ranked most trade finance facilities as high risk proposed a few suggestions in order to implement risk management effectively as according to him:

“To effectively manage the risk areas as listed, KYC (know your customer) is to be performed before onboarding and KYCC (know your customer’s customer) to be performed in order to know what they are dealing with plus Anti Money laundering (AML)/Sanction check on every single transaction should be conducted. I also believe that well-trained staff in identifying and mitigating the risk is the key. On the top, post surveillance checking is a must.”

(P3, 11-20 years’ experience in Islamic bank)

The above observation, focusing on the possibility of future risks and challenges exposes by the bank through the use of fintech platform or system in trade financing. It was found that all interview participants agreed on one important thing which is a technology-related type of risk will be the biggest challenge. This will include system risk, security/viruses/hacker type of risk, the secrecy of user information and fraud or scam risk. Thus, extra miles are required in knowing your customers well which includes KYC (know your customer) and KYCC (Know your customer’s customer).

Participants’ Opinion on Future Prospect of Fintech Usage in Trade Financing

Besides exposing the banks with some serious challenges, the upside facts that are not to be overlooked also worth the banks to pay attention to. The researchers specifically asked on whether or not fintech platform or system could give an advantage to the bank specified in the trade financing processing, all interview participants had given positive feedback as below:

“Yes, it will reduce turn-around time, reduce the cost such as paperless processing and will minimize the cross border or time zone barrier.”

(P1, 6-10 years’ experience in Islamic bank)

"Yes, it will help to lessen the workload and processing time.”

(P2, >20 years’ experience in Islamic bank)

“Yes, by having hassle-free transactions between both banks and also between customers/investors, the operation can be simplified where customers are no longer required to go to the bank physically. This will help to have faster turnaround time and reduce man-hours.”

(P3, 11-20 years’ experience in Islamic bank)

“Yes, it will simplify the process of physical documents to electronic-based.”

(P4, >20 years’ experience in Islamic bank)

“Yes, the digitization and automation in trade finance operation improve the turnaround time in delivering financial services in a newer and faster way effectively and efficiently.”

(P5, >20 years’ experience in Islamic bank)

From the observation, it can be summarized that all the participants had agreed that digitization and fintech have improved many areas in trade financing processes including simplified and minimized the turnaround time in delivering the banking and financing services.

The Readiness of the Banks in Facing the Digital Era
Considering both possible prospects and challenges faces by the banking and finance industry, it is very crucial to investigate the stage of readiness and possible planning the banks must have in preparing themselves for the digital era. Thus, the researchers have posted an interview question on the bank's level of readiness as well as their current preparation in the trade finance processing department is facing the challenges of fintech era. All interview participants have similar responses where all have shown a certain level of readiness to move forward for the fintech era especially in competing among each other in the financial industry. Additionally, P1, P4 and P5 had mentioned the current fintech platform or system in trade finance processing that they are using at their individual banks and P5 specifically did highlight their future project to equip themselves for the fintech era. Their opinion as follows:

“Currently we are ready with imaging and workflow system called Financial Supply Chain.”

(P1, 6-10 years’ experience in Islamic bank)

“We are using a system called TE 2000 for trade processing and online connect front end system for customers.”

(P4, >20 years’ experience in Islamic bank)

P5, who are also sharing on their current system, did mention on their future project in order to further equip themselves to be at par with other banks. According to him:

“Our current trade processing system is called Financial Supply Chain and TS Lite. Both are e-channel applications whereby customers may transmit trade application or trade request via online. In fact, our bank is moving towards “robotic” in the future to handle trade transaction processing. This project is expected to be completed by the end of 2019.”

From the above final observation, it can be summarised that most of the participants clearly shared their opinion on the readiness of the banks in facing the digital and fintech era.

CONCLUSION
To investigate and further explore the prospects and challenges as well as the extension of risk management practices and processes of trade financing in the banking and finance industry are the main objectives of this study. From the analysis, we can conclude that the conduct of risk management is very critical given the fact that this new fintech era is exposing the banks to not only the downside of risk that exposes the banks to new types of digital-related and cyber risk but also the upside of risk which would open up the bank to new opportunities. It is the duty of all banks to make sure that the processes in trade financing besides its digitization in simplifying the processes it must be properly guided, regulated by having enough trained staffs with knowledge in compliance and risk awareness in order to protect the banks against serious risk.

In trade financing, knowing their customers in and out by thorough checking on customers’ background and financial history are important. Hence, this study showed that a standard procedure such as Know Your Customer (KYC) and Know Your Customer's Customer (KYCC) is a must-do procedure. Furthermore, the findings also indicated that the implementation of effective risk management in the listed risky area namely as pre-approval screening, staff training, and post-investigation activities like audit and consultant's check has become a concern to all the interviewed participants. Most of the participants have ranked that listed import and export services as high risk exposures.

The observation done in the expert's interview is not only about the existing state of risk in trade financing, but it also goes beyond the future risk that might be faced by trade financing processes especially when operating in the era of digitization where fintech risk and digital risk are co-existing exposing the banks to greater risk exposure. Technology risk is a major issue when it comes to the digital era. The overwhelmed growth of fintech which affects among other technological platforms for trade financing processes such as trade finance software, payments, financing, foreign exchange and remittance has made the banks more vulnerable in terms of risk exposure. Moreover, the borderless system and the introduction of bitcoin experienced by many banks today might bring more troublesome in the future if the risks are not managed accordingly.

LIMITATION AND STUDY FORWARD
Data collection was conducted once; hence it is the limitation of this study that is focused only on selected participating banks. Therefore, generalization is not recommended. Looking at the fact that risk exposure in trade financing processes is escalating due to this new fintech or so-called digital era, it has propelled both Islamic banks and its conventional counterpart to have greater resilience when it comes to handling day to day trade financing processes. The need of having proper risk management planning is critical and the findings from this study show that both banks are preparing themselves in facing this challenging era, ready to compete healthily and prosper together adding values to the current Malaysian financial industry.
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AUTHORS CONTRIBUTION

Author 1 has contributed to the write up on the abstract, introduction, risk and challenges, the conclusion and final formatting. Author 2 has contributed to the write up on the introduction, risk and challenges, opportunities and future prospects. Author 3 has contributed to the write up on the methodology and discussion analysis. Overall, all authors have worked together in developing the research plan and collecting the research data. The selection of participants, the development of semi-structured questionnaires and the analysis of data was also done together by all authors.

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