

# Blockchain in Trade Finance: disruptive or overhyped? Some comments

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# Agenda

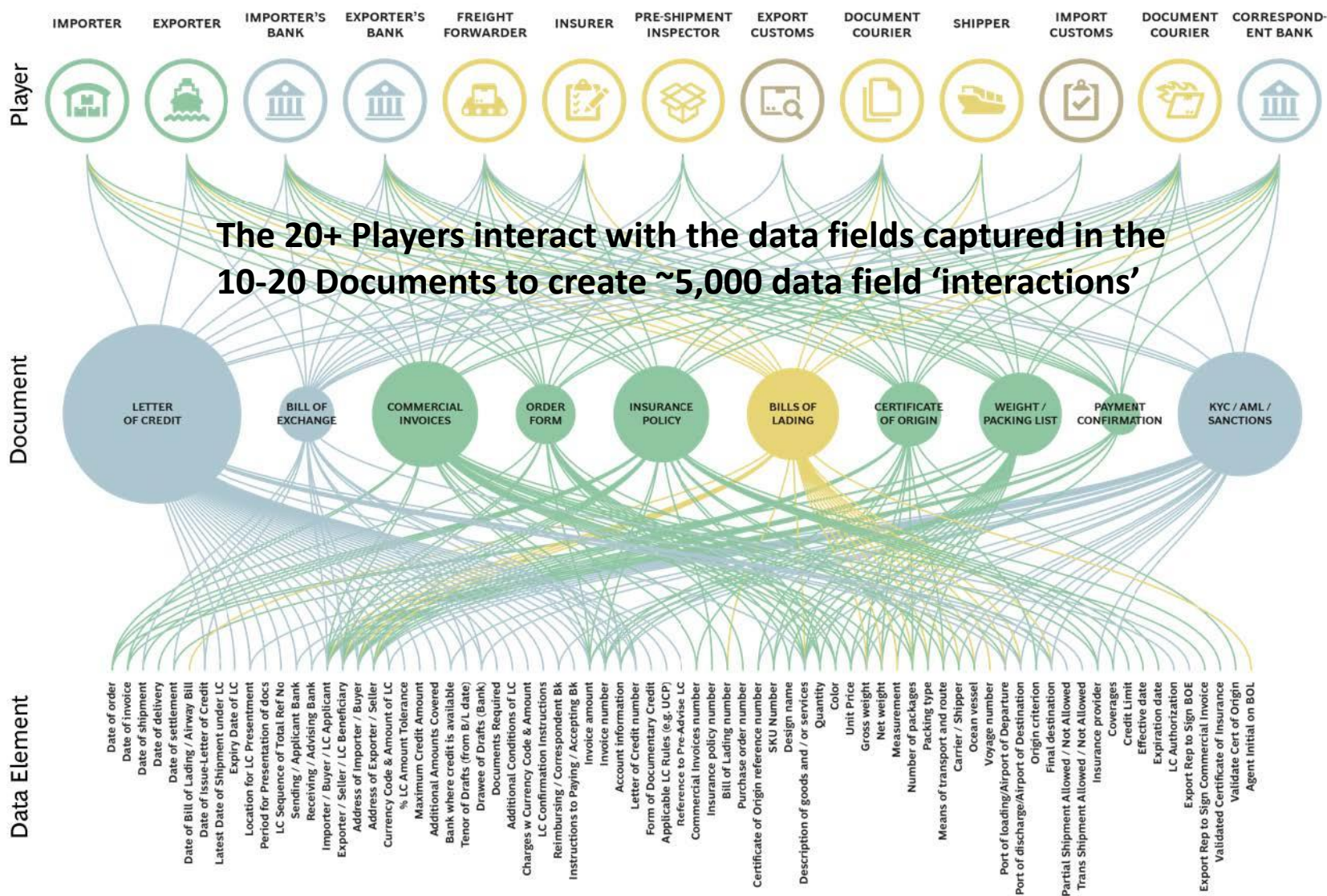
1. What is blockchain technology in 1 minute?
2. Strong and weak points in field of Trade Finance
3. Where are we now? What are banks doing?

# 1. BLOCKCHAIN: what?

= growing chain of blocks (= electronic records/data), each linked through cryptography with previous block. Each block has a timestamp and can not be altered without altering all subsequent blocks (which require consensus of the network).

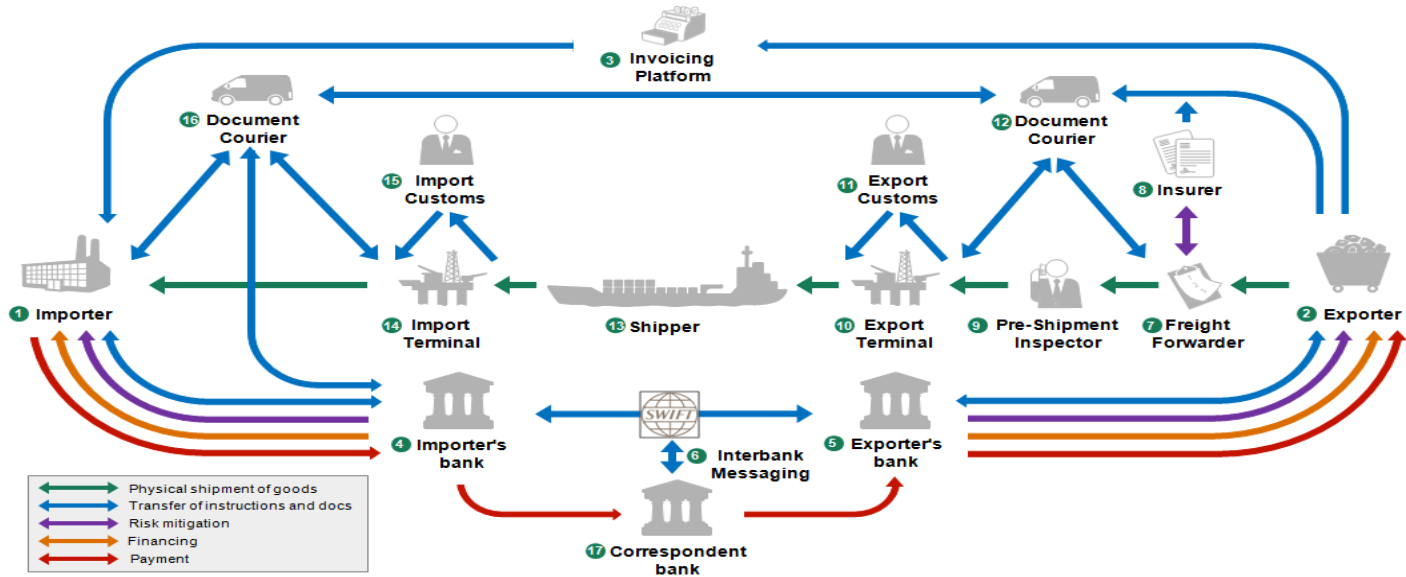
It's an open distributed ledger (DLT technology) that records successively transactions (data) between 2 parties member of a network via a protocol for connecting and validating new blocks. That network can be open/ public for everyone (e.g. bitcoin) or be "closed" (= private, like all Trade blockchain platforms). Members of Private platforms need to accept a "Rulebook" (like UCP)

On the platform "smart contracts" are available= standard contracts which trigger or enforce an action without human intervention e.g. automated escrow account.



# Current Trade Ecosystem

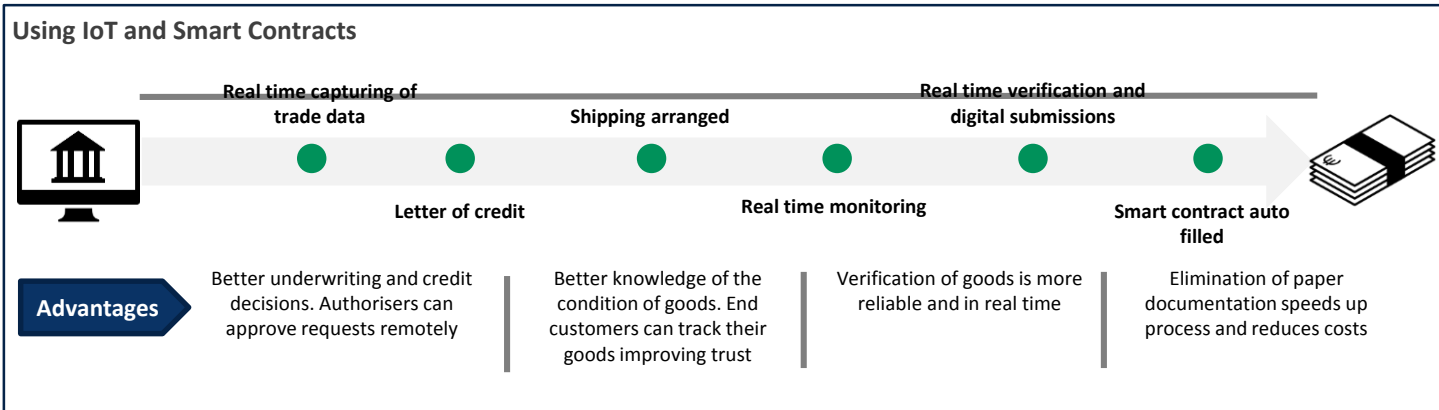
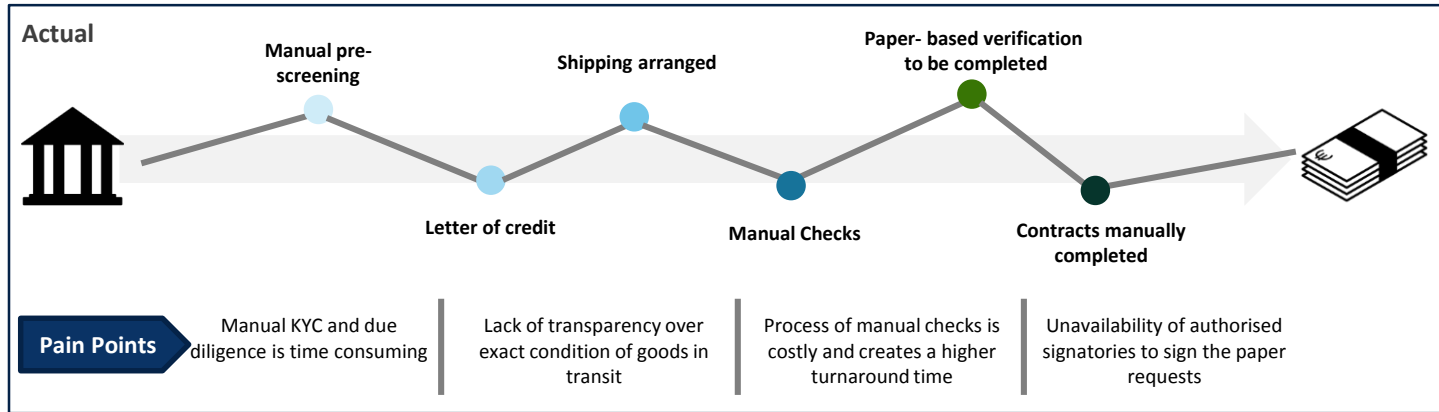
The International Trade "Ecosystem"



Source: BCG Working Paper "Embracing Digital in Trade Finance" - October 2015

Trade Finance environment is complex and is still mostly a **paper based business**

# Letter of Credit : Actual vs post Blockchain integration



Source Oliver Wyman, Santander

## 2 Using blockchain in trade: strong & weak points. TF today

- Low visibility of end-to-end trade trx
- Low standardisation and paper based processes
- Bank services not really integrated in the chain
- No co-ordination for a trx with multiple parties
- No connection with IoT (Internet of Things)
- Fraud possible in all steps
- Expensive screenings processes
- Expensive for small amounts

## 2 Possible strong points of blockchain in Trade

- Digitised end-to-end (possible link with ERP)
- Everyone can monitor the status of trx in real time (“track & trace”)
- Set payment conditions with automated execution via smart contracts
- You can use confirmation that goods are delivered to trigger payment
- Client can request bank services against these trades e.g. to secure payment (cfr BPO) or to finance the receivable or payable
- More easy to screen transactions on embargoes? KYC etc



## 2 Weak points for implementing Blockchain in trade

- Real trade trx can be very complicated with many parties, each having different level of know how, own technical software, usances, cultures etc. The whole supply chain should use blockchain if you want full benefit = hurdle
- Legal frameworks differ per country! Crucial issue.
- Scaleability of blockchain=? ( it requires huge power on computers and electricity)
- Psychologic hurdles : sufficient trust? Quid inertia?



Voltron

Marco Polo

Batavia

we.trade

Trade Finance  
Blockchain  
Consortia

Ledger  
Insights

### 3. Current projects by banks of trade platforms using blockchain

- VOLTRON: tries to copy L/C using eBL.
- Marco Polo: open-account trade. 4-corner model
- we.trade: focus on open-account trade, also SME and small contracts. Access through home banker.
- Batavia: tries to copy L/C

All now in phase of testing / piloting. No big real flows today. More and more banks are joining these consortia. On LT : merger of all platforms ? Not evident as they use different DLT technology...

# 3 Other TF-projects using blockchain

- Next to these there are many important new developments: e-BL of eSSDOCS, Bolero, WAVE (=e-B/L using blockchain), WILSON (= multibank platform for supply chain financings), Easy Trading Connect for Commodity trade finance, ...
- Asia/Pacific is the leading region and with strong support of governments tries to make platforms connecting all actors e.g. HongKong, Singapore (also Dubai) : Global Trade Connectivity Network GTCN (Hong Kong) connects to all kind of other platforms (eco-systems) , not only banks
- ?? Maybe banks will be pushed away by Chinese titans like wechat or Alibaba which have better cards and know how to organise very broad DLT platform...