

Blockchain and trade finance: A marriage made in heaven

Is trade finance going to come up trumps together with blockchain technology? Banks and fintech firms remain confident that blockchain technology can transform the paper-heavy industry of trade finance.

The trade finance industry is ripe for the capabilities of blockchain technology. The technology is changing everything from payments transactions to how money is raised in the private market. Blockchain has the potential to disrupt the trade landscape - by simplifying a range of activities - including reducing disputes and fraud to offering delivery and payment assurance, facilitating transparency of trade asset movement, and assisting in the flow of trade receivables. The end goal: increased collaboration, automation, and control in trade transactions.

Blockchain has the power to reshape trade finance and to decrease pointless frictions and shortcomings taking over the trade finance value chain. Old and paper-based processes are in desperate need of upgrading. Blockchain plays a crucial role in this transition and in the introduction of new digitalized solutions. The main benefits of blockchain technology in trade finance can be condensed down to efficiency, traceability, auditability, transparency and security.

Benefits of a blockchain-based solution for trade finance

- Follow new income streams through new financing products and alternatives to letters of credit
- Offer banking services to small and medium enterprises and companies that would traditionally use open account trading
- Acquire deep understandings into client financial positions and transaction histories
- Lower operating costs by digitizing sluggish and cumbersome paper processes
- Employ blockchain security attributes to establish greater visibility and control of transactions, thereby positively affecting the bank's capital adequacy position
- Rapid approval processes and trading cycles

To date, most processes in trade finance are manually driven, but a dramatic increase in blockchain-enabled solutions are being adopted by businesses. The World Trade Organization (WTO) published a report in 2018 declaring that blockchain would add US\$3tn to international trade by 2030.

Euro Exim Bank (EEB), the best global trade finance bank, was one of the first adopters of blockchain to power international trade settlements and has gained an enviable reputation through its competitive pricing, customer relationships and fast service.

Blockchain not only enables collaboration but gives each participant autonomy over their own data, allowing them to choose how and when they plan to share it with other trading partners with a transparent and auditable data trail – without disclosing any data to irrelevant parties in the network.

Challenges facing blockchain adoption

Traditional paper-based trade finance systems

One of the difficulties involved with trade finance is the large volume of paper documents that make up much of the information flow between trading parties. This reliance on documents has downsides, including the cost and time required to prepare, transmit, and check these documents.

Paper documents may also be open to mistakes and forgery.

Lack of standardisation

One of the main problems related to the development of digital platforms in trade finance is that each platform developer is doing something different.

Regulatory compliance

There continues to be uncertainty over the legal status of e-documents among legal systems.

High implementation costs

The cost of creating and maintaining a blockchain network is regarded as a barrier to the wide adoption of this technology.

Trade Finance Systems: siloed and disconnected

Trade finance involves numerous parties including a buyer, a seller, their corresponding banks as well as insurance providers and logistics companies, amongst others. However, there is not one platform where all these parties can connect between each other. Instead, they need to connect to a multitude of platforms in order to initiate business, share documents and communicate.

Benefits of blockchain technology for trade finance

The *International Chamber of Commerce* estimates indicate that digitising trade documents could generate £25bn in economic growth by next year, and savings of £224bn through the uptake of the Model Law on Electronic Transferable Records.

There has been widespread optimism regarding the application of blockchain in the banking industry, with claims pointing to blockchain technology disrupting business and financial services in the way the internet disrupted offline commerce. Blockchain technology holds the potential to change business processes by redefining value chain interactions, lowering operational intricacy and reducing transaction costs.

Blockchain has the potential to cut costs, speed up transactions and promote greater financial inclusion by streamlining cross-border and remittance payments. These powerful innovations can transform the payments infrastructure.

Benefits of blockchain to companies and clients

- It creates a single, shared source connecting parties. It also enables real-time exchange of data and assets between parties.
- It reduces friction and cost, boosting speed and increasing the transparency of cross-border trade with digitised accounts on a distributed ledger. The technology, also called DLT, can now be used to settle a letter of credit in a few hours compared with ten days via the old system.
- It can digitize, secure, streamline, and accelerate operational processes and supply chains across global markets. The benefits of blockchain are its simplicity and security. Since each new item adds to the coding and verifies the previous item the risk of forgery is eliminated.
- It offers enhanced security. Blockchain solutions offer a high level of data security for banks, owing to the cryptographic operations that make them work. Their decentralized nature also helps to lower system downtime.
- It provides greater transparency. Transactions and data are recorded identically in multiple locations

- There is instant traceability. Blockchain creates an audit trail and reveals weaknesses in supply chains
- Increased efficiency and speed: By simplifying processes with blockchain, transactions can be completed quicker and more effectively

Ripple, an enterprise blockchain services provider, is one of the most prominent players. While the company is best known for its associated cryptocurrency XRP, the venture-backed company itself is building out blockchain-based solutions for banks to use for clearance and settlement.

SWIFT messages are one-way, like emails, mean that transactions can't be settled until each party has screened the transaction. By integrating directly with a bank's existing databases and ledgers, Ripple provides banks with a faster, two-way communication protocol that permits real-time messaging and settlement. Ripple currently has over 300 customers in over 40 countries signed up with its blockchain network.

As one of its innovative projects, *EEB* was an early adopter of Ripple's cryptocurrency-driven global payments solution On-Demand Liquidity (ODL). Ripple and *EEB* also investigated a new capability that embeds trade finance transactions into Ripple's blockchain-based messaging system.

Access to fiat currencies is expensive and limiting, but with ODL a buyer or seller can pay or receive funds in local currency with lower liquidity requirements. For buyers, local currency is exchanged into the XRP digital asset and remitted to their counterparty - who is paid in local currency. This is completed all in real-time, with full audit and a guarantee of zero rate-change through the transaction.

Using xCurrent for payments and ODL solves the liquidity issue by switching from local currency to XRP and paying out in local currency at the receiver end, resolves the time issue of delivery and authenticity.

EEB has one of the fastest issuance processes because of its streamlined workflow underpinned by blockchain, AI and innovative technologies, including the prospect of issuing its own asset-backed stable coin for trade, namely EXIMCoin.

Blockchain technology presents a plethora of opportunities for enterprises that implement it, and spending on blockchain is projected to increase over the next decade. This is occurring fast across trade finance, and innovative financial institutions like *EEB* provide their clients with quality financial solutions and flexibility. Leaders looking to future-proof their businesses should collaborate with thought leaders in blockchain, simplifying their processes and reaping the rewards.