

Riding the crypto wave

Over thirty years ago, a set of solutions were proposed to resolve business inefficiency. Who can forget the hype around Straight Through Processing (STP)? And then middleware and business process re-engineering?

STP was the methodology and technology used by financial companies to speed up financial transactions by processing without manual intervention. Rationalising and standardising multiple systems and removing redundant machines, applications and processes.

Then, business process re-engineering (BPR), with a strategy focusing on the analysis and design of workflows, application interconnectivity and business within an organization.

Its aim was to help organisations fundamentally rethink how they do their work in order to improve customer experience, cut operating costs, and become world-class competitors.

And then there was middleware technology, the software that lies between an operating system and the applications running on it. Not API's, but working as an underlying translation layer, enabling communication and data management between, and across, distributed applications.

With heavy demand on IT department priorities, and not wishing to risk total replacement of the core systems of banking, middleware pipes promoted connectivity of legacy systems with restricted data to feed their content to another application, and to have that enriched with additional information from another. With ability to mix, add to and match formats, banks could keep up with mandated standards and regulatory changes and customer driven enhancements, faster and economically.

Rather than apply automation across the board affecting every task, with an increase of 3rd party technology which would potential be implemented at the expense of people and human interaction, the key was to eliminate work that does not add value.

Organisations today are keen to embrace technology, examine potential architectures and copyrighting new processes, but still struggle across multiple business sectors with analogue processes in a digital world.

With so many demands on IT just to stay relevant in retail and wholesale banking, financial institutions do not automate for the sake of it. They automate to purposefully reduce internal cost of services, improve client experience, increase channels to market and sales, maintain healthy and growing credit and cash flow and retention of clients.

Today's universal challenger in the bid for technological glory is blockchain. But rather than being the latest gamechanger, we need to consider some fundamental truths. Rather like the first telephone, who's true value was not seen in isolation, it became a global utility when applied ubiquitously and at scale.

And similarly, blockchain technology has potential in a distributed ledger environment, underpinning digital assets, becoming the technology of choice in commercial and central banks, and assisting in driving transparency, trust, immutability, shared communication, and speed in international trade. But everyone needs to buy in.

Perhaps it is the possible use in so many spheres that causes most concern, as blockchains can have multiple uses in different sectors, be they private, public, managed by consortiums, and accessible by everyone or restricted, on earth or even now in space, based on satellites, the final decentralised frontier.

Rather than focus on the public perception of speed, trust etc, we need to consider the reality. How it may affect and enrich specific trade, and how today it continues to fall woefully short in all aspects in terms of connectivity, preparedness, cost, scale and ultimately, value.

Across the globe, tier 2 and 3 corporates numbering millions are the key drivers of economic growth. From one-man businesses to multinationals, small subsistence farmers to heavily mechanised industries, the world still revolves around ancient paper-based and bureaucratic processes.

Leaving aside the subtle nuances and differences between nations, blockchain will not magically solve the issues of digital and digitised processes.

Imagine the scenario of a farmer in a land locked country in Africa, selling crops to Asia, reliant on hard copy documents, getting certified paperwork, resolving multi-stop processes with many counterparties, operating with different formats, languages, standards, service level agreements, timing, title and ownership and complex costly foreign exchange required for final settlement.

The objective remains to move, store and issue digital assets, and gain access to self-custody digital asset wallet technology, an asset transfer network and tools to access staking, DeFi and control of digital asset exposure.

As digital currencies become more mainstream, there is a defined use case for capital markets activity, where firms may be the first to benefit from a single solution that helps them manage many classes of digital assets.

And then come the regulatory issues. In the US, the battle rages over whether cryptocurrencies are prone to insider trading, demanding increased scrutiny and consumer protections, whether they are classified as securities, how, if and when they may be taxed, and if companies are illegally listing coins and currencies on exchanges, many of which have closed.

But things are not all doom and gloom. Blockchain technology can and will provide significant benefits including allowing machines to have unique identities, a virtual presence and automated verification. By taking out the human element, time, error, money and resource may be saved, where processes can now allow exchange of value, assisted by artificial intelligence.

When one brings vast efficiencies and reduced costs to the industry, whilst the consumer may gain the opportunity to transact without the traditional cost barriers, achieving value at scale, monetising the offering becomes more difficult. With so many players, margins will tight, and with technology lowering the cost, only immense volume and scale will provide the necessary revenue streams in trade finance banking and a fast return on investment.

Technically, by adding Robotic Process Automation (RPA), machines will be able to interpret and apply human behaviour, and blockchain adoption will provide the secure layer of golden untouched, trusted records where business processes can run across multiple organizations with unfamiliar participants.

However, transforming trade takes time, and banks tend to want to see a return on their huge investment in digitisation faster than the current market is proving, and where predictive timelines for solid returns are in the tens of years. It will be fascinating to see which companies stay the course, and whether current networks and applications, always evolving, present a faster, cheaper option, with retunes based on more clever use of existing technology.

Industry experts point out that blockchain is simply a technology, an enabling layer, rather than a solution in and of itself.

With so much hype in the market and some sceptics firmly of the opinion that blockchain is a solution looking for a problem, its true value comes in moving and securing money, either in the form of cryptocurrencies (like bitcoin) or in the tokenisation of assets such as property.

And this is the area where Euro Exim Bank are most interested with specific attention to a new viable blockchain, stablecoins which do not suffer from market volatility and whim of individuals, and utility tokens for trade.

Whilst the concept allows the bank to enter multiple market spaces, offering all things to all people, a more strategic approach has been adopted. By focusing on trade and pegging value to main fiat currencies, the coins offer stability, trade options without losing value, and a trusted digital store of wealth.

Aiming for a full announcement in Q1 2023, a new crypto offerings from Euro Exim Bank, named EXIM COIN, asset backed and regulated, in addition to a newly incepted blockchain, will offer investors the opportunity to engage and participate with a secure utility coin for trade projects.

And the goal? Allowing the complex, multi-party trade market to access trade finance asset classes and instruments expressly, efficiently and economically.

Adopting digital trade ecosystems requires full management buy-in, vision and serious financial commitment and, after years of feasibility studies, continued research, observing market take-up, evolving design and selecting the most flexible platform, EEB have moved forward with its new offerings.

Although many blockchain initiatives have successfully developed technology and onboarded partners, few to date have been able to prove the use case and make enough of a difference to the trade finance industry to justify the exhaustive change management and investment involved in adapting their systems.

The main challenge continues to be the demonstration of value, in a world where, despite all of the industry's conferences, discussions and often inflated talks of a world already moving to full data information interoperability and digitisation, the world's supply chains remain complex, challenging and paper-based.

Without the necessary building blocks in place, the will, money and the resources to make it happen, no technology yet exists to link the world and bring trade's ancient processes into the modern era. And, to paraphrase Rowan Atkinson a famous Barclaycard advert "we are both fluent, sadly in different languages".

Initiatives in digitalisation of process and digitising of documents, the modern iteration of STP and BPR, may yet be transformative in trade and supply chains, but re-engineering the entire trade ecosystem - from buyer to exporter, shipper, customs, warehousing/logistics, carriers etc - can only progress with agreed standards and protocols.

Once this is achieved across millions of businesses and hundreds of countries and jurisdictions, blockchain-based ecosystems may truly revolutionise digitise trade finance have faltered.

Clients are not interested in the mechanics of systems, and as an analogy they merely wish to drive the car, fast efficiently and economically. The engine, electrics, trim etc are of no consequence, and as with blockchain, the underlying technology may be brilliant, future proof and secure, and all transactions should run on this technology, not just a privileged few.

Our goal is to deliver functionality, not hype around new technology.

And with the prospect of a new EEB utility coin and blockchain specifically for trade, our solutions look at reducing the current barriers to trusted fast communication for the industry, with the aim that blockchain, like BPO, STP touted as gamechangers before it - will be favourably consigned to history as the underlying technology that truly delivered.