How Blockchain Can Reshape Trade Finance

Trade financing, where financial institutions provide credit facilities in order to guarantee exchange of goods, is a centuries old industry that hasn’t seen much change with the growth of global trade flows. In 2015 alone, the trade finance market was measured at more than $10 trillion USD.

Deloitte has re-imagined how trade finance can operate leveraging a Blockchain based infrastructure to drive efficiencies, reduce cost base and open up new revenue opportunities, like newer models of credit and funding guarantees backing the trade.

Pain Points of Today’s Processes

1. Manual contract creation: The import bank manually reviews the financial agreement provided by the importer and sends financials to the correspondent bank
2. Invoice factoring: Exporters use invoices to achieve short-term financing from multiple banks, adding additional risk in the event the delivery of goods fails
3. Delayed timeline: The shipment of goods is delayed due to multiple checks by intermediaries and numerous communication points
4. Manual AML review: The export bank must manually conduct AML checks using the financials provided by the import bank
5. Multiple versions of the truth: As financials are sent from one entity to another, significant version control challenges exist as changes are made
6. Duplicative bills of lading: Bills of lading are financed multiple times due to the inability of banks to verify their authenticity
7. Delayed payment: Multiple intermediaries must verify that funds have been delivered to the importer as agreed prior to the disbursement of funds to the exporting bank
8. Multiple platforms: Since each party across countries operates on different platforms, miscommunication is common and the propensity for fraud is high
Future State Vision

Upon purchase, the agreement of sale between the importer and exporter is shared with import bank using a Smart Contract on the Blockchain.

In real-time, the import bank will have capability to review purchase agreement, draft terms of credit and submit obligation to pay to export bank.

Export bank will review the provided payment obligation and once approved, a Smart Contract will be generated on the Blockchain to cover terms & conditions and lock-in obligations.

After receiving the obligations, the exporter will digitally sign Blockchain-equivalent letter of credit within the smart contract to initiate shipment.

At delivery, importer will digitally acknowledge receipt of goods and trigger payment.

Using provided acknowledgement, Blockchain will automate payment from importer to exporter via a Smart Contract.

During transit, goods will be transported from Country A to Country B.

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Goods will be inspected by 3rd parties and the customs agent in the exporting country - with all providing their respective digital signature of approval on the Blockchain smart contract.

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Blockchain Advantages

Real-time review:
Financial documents linked and accessible through Blockchain are reviewed and approved in real time, reducing the time it takes to initiate shipment.

Transparent factoring:
Invoices accessed on Blockchain provide a real-time and transparent view into subsequent short-term financing.

Disintermediation:
Banks facilitating trade finance through Blockchain do not require a trusted intermediary to assume risk, eliminating the need for correspondent banks.

Reduced counterparty risk:
Bills of lading are tracked through Blockchain, eliminating the potential for double spending.

Decentralized contract execution:
As contract terms are met, status is updated on Blockchain in real time, reducing the time and headcount required to monitor the delivery of goods.

Proof of ownership:
The title available within Blockchain provides transparency into the location and ownership of the goods.

Automated settlement and reduced transaction fees:
Contract terms executed via Smart Contract eliminate the need for correspondent banks and additional transaction fees.

Regulatory transparency:
Regulators are provided with a real-time view of essential documents to assist in enforcement and AML activities.

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