Evolution in Trade Finance in a World of Disruptions and Digital Innovation

Hovsep Voskanyan | Financial Institutions I Representative Office Minsk | Minsk / March 2019

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Agenda

1.	**Why disruptions? - some basics**
2.	Digitalisation in trade
3.	Digital trade finance initiatives

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Where does industry 4.0 come from ?

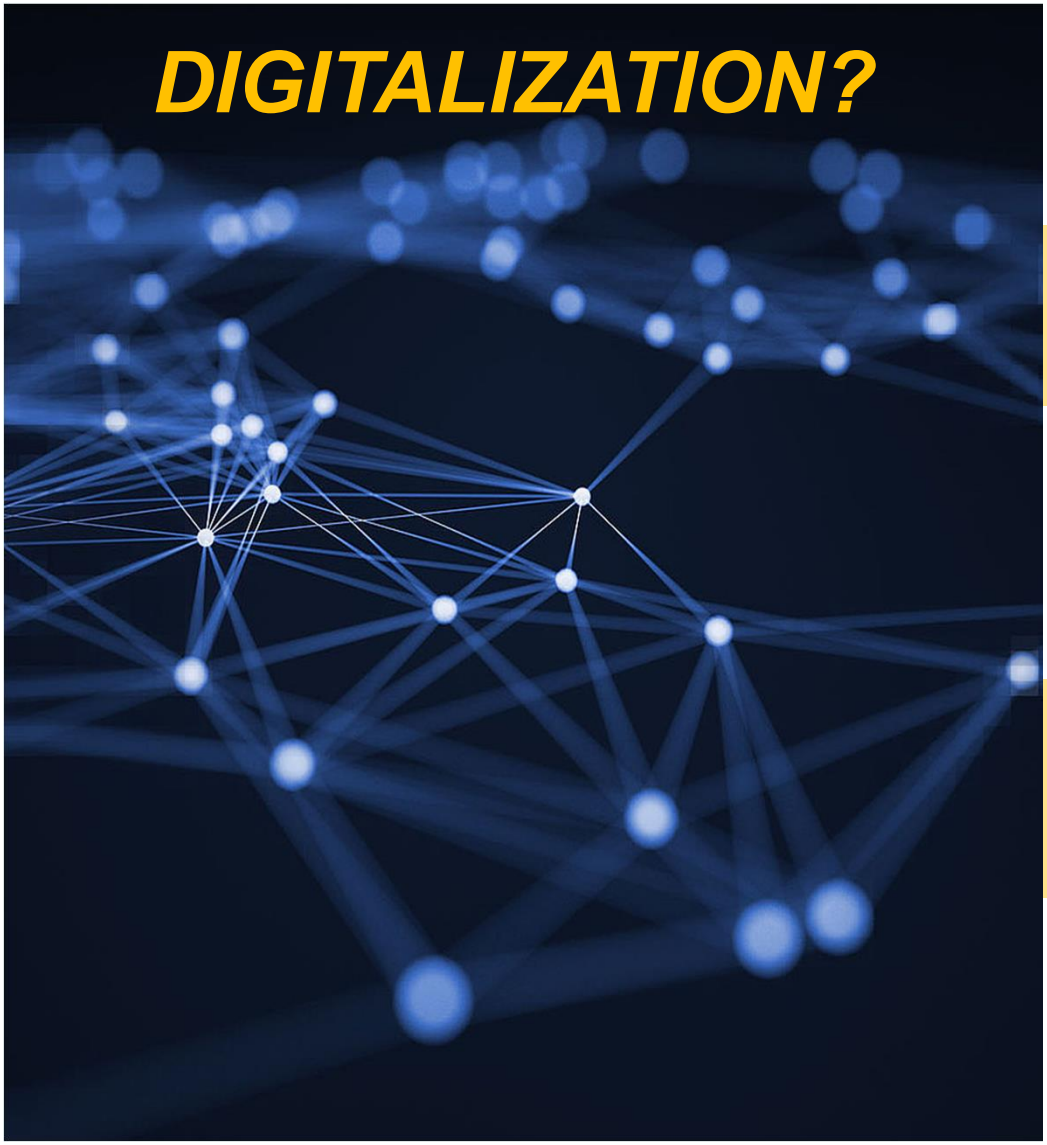
Industry 1

Industry 2

Industry 3

Industry 4.0

DIGITALIZATION?



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Technical definition:

Transformation of information from analogue to digital storage

General understanding:

Automatisation of processes and business modes by connecting digital technologies, information and people

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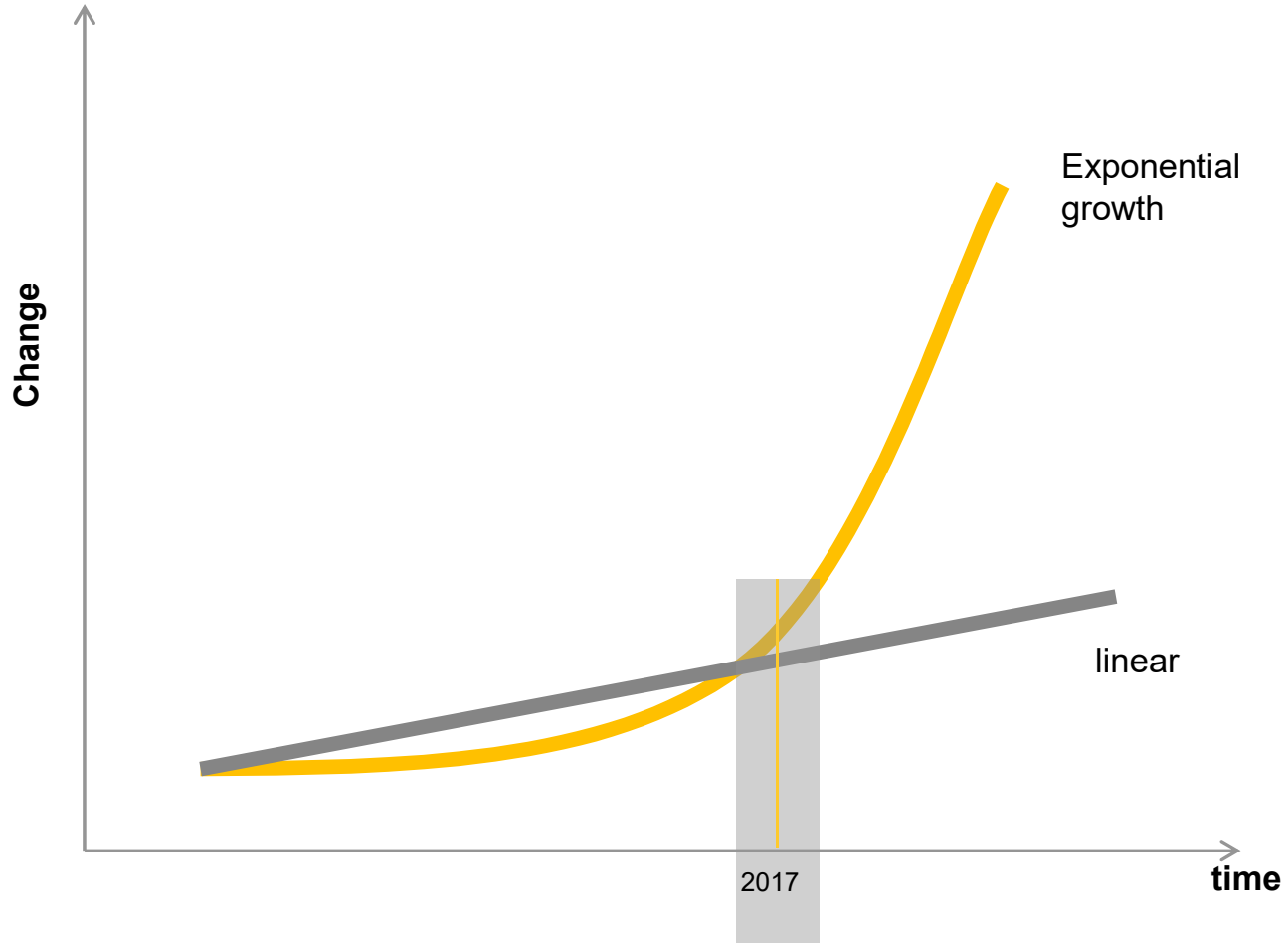
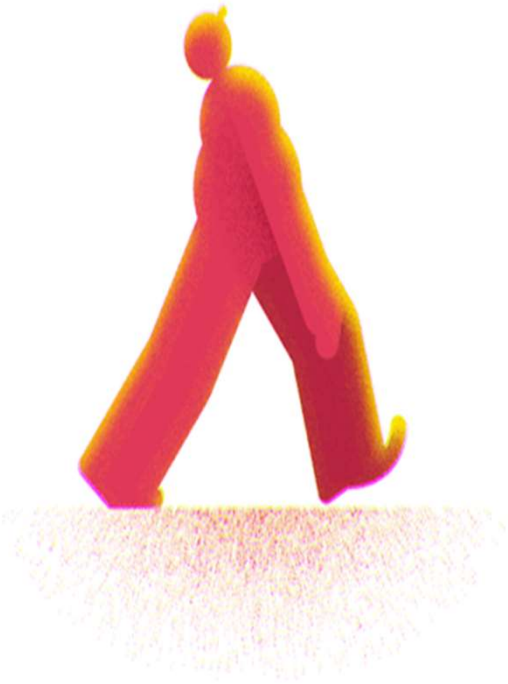
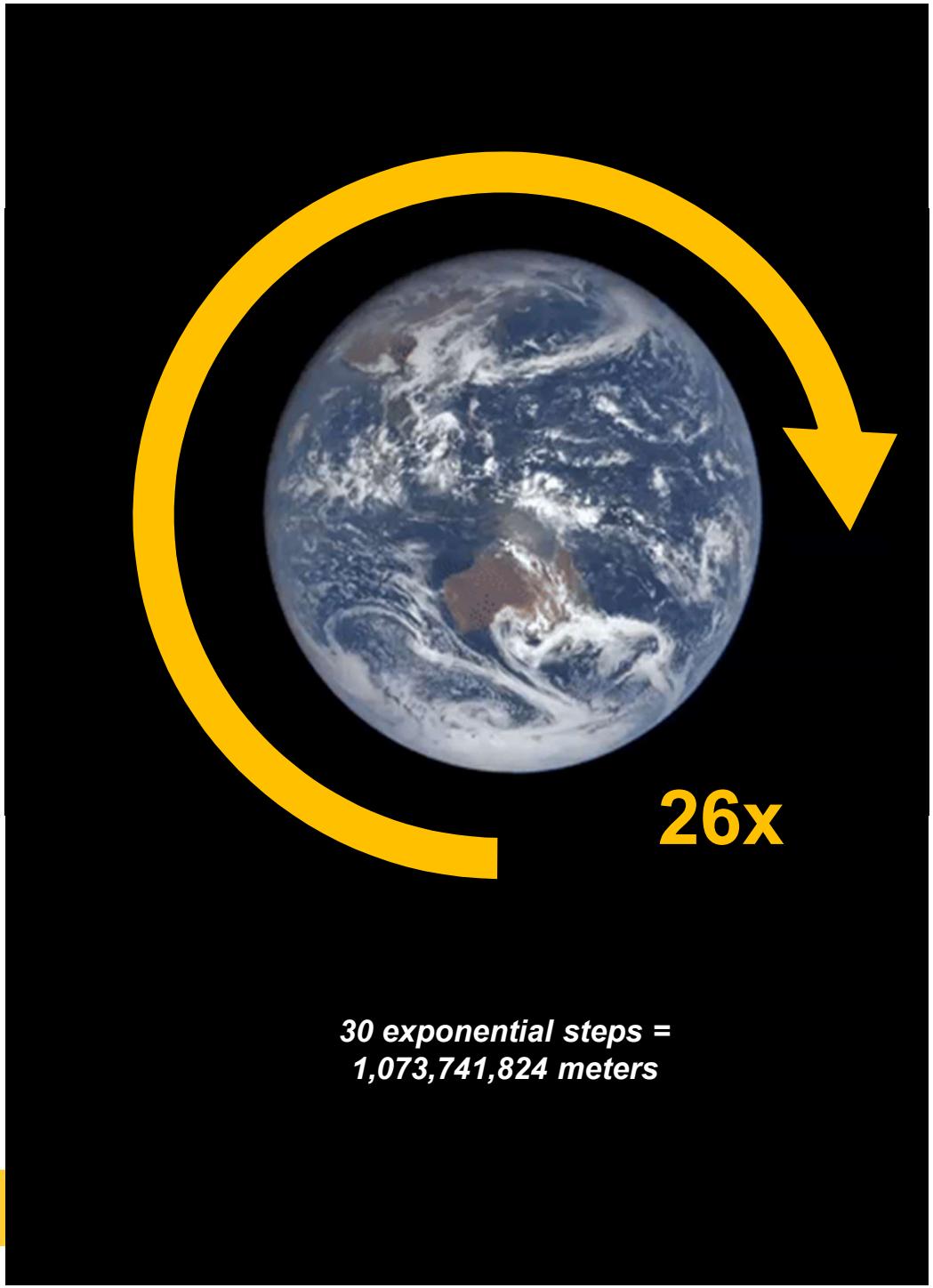
Exponential growth (of information and technology breakthroughs)



Exponential vs. linear growth

30 linear steps = approx. 30 meters





30 exponential steps =
1,073,741,824 meters

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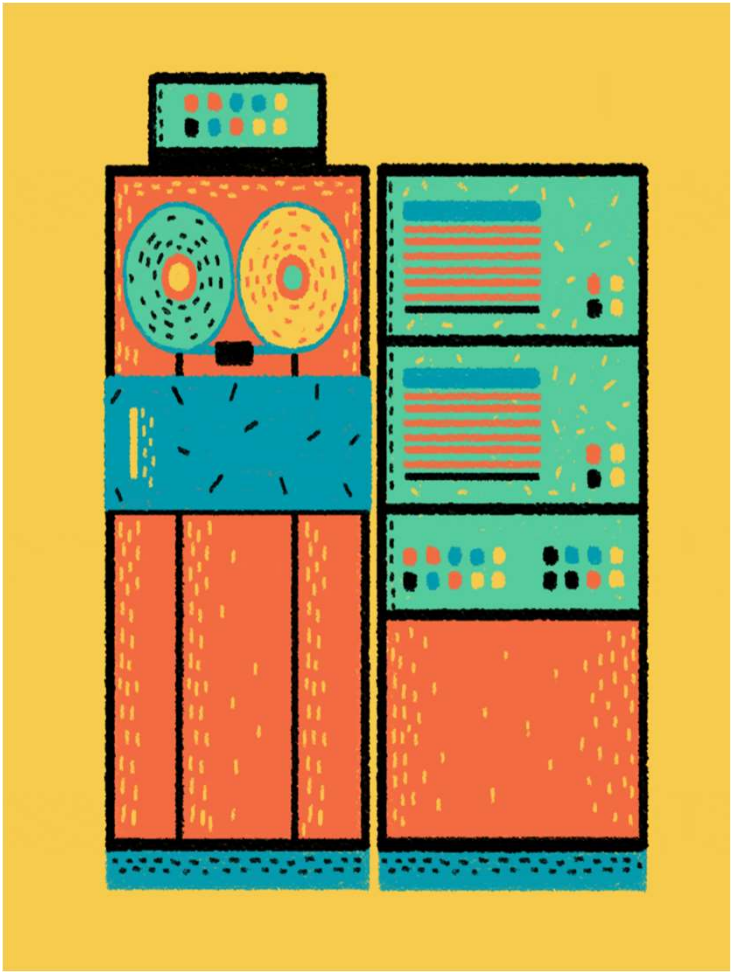
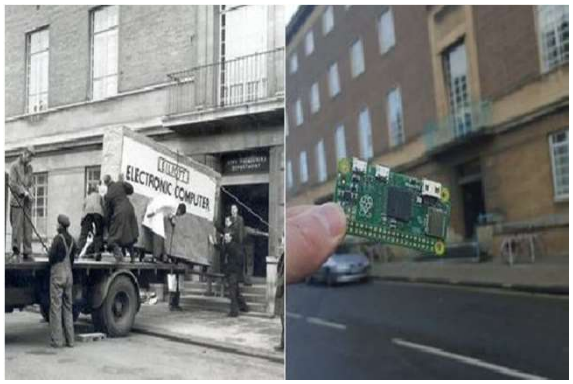
Exponential growth caused by digital transformation

Moore's Law - The number of transistors and resistors on a chip doubles every 24 months

— Gordon Moore —





x^2

smaller
= faster
= cheaper

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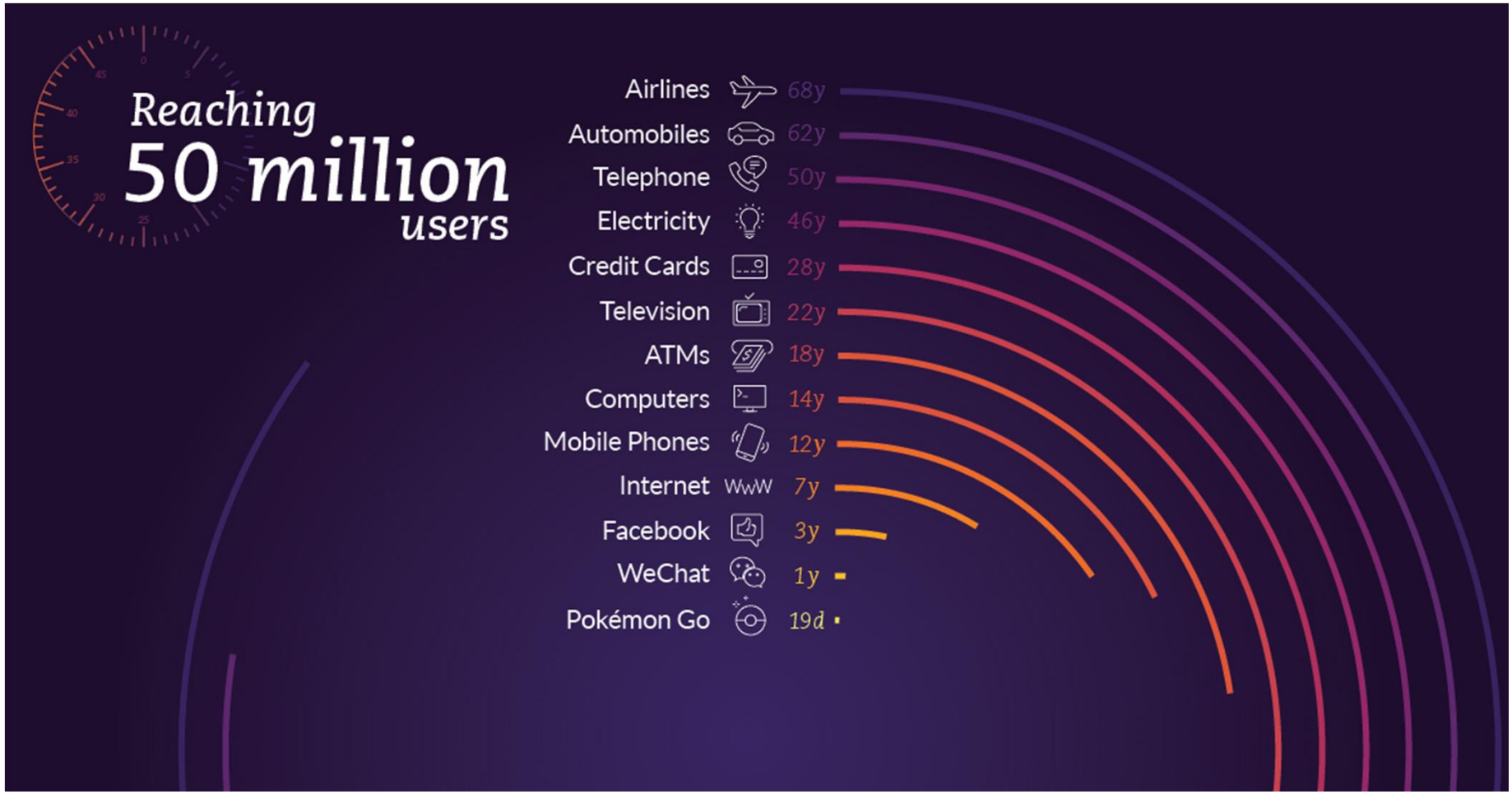
Innovation is implemented faster and faster



Source: Visual Capitalist

Disruptive technoligies: Distributed ledger technology

Background

- A network of interconnected computers collectively manages a single ledger
- No central agents, no intermediaries
- All participants have access to the same set of information at the same time with impact on automation of processes, settlement speed, risk evaluation, and economic costs
- Blockchain also uses DLT.

Blockchain initiative

- Commerzbank is also active within the consortium partnership with over 80 of the world's leading financial institutions led by **R3 (R3CEV).**
- R3 is an innovation firm focused on building and empowering the next generation of global financial services technology.
- The consortium collaborates to develop commercial applications for the financial services industry that leverage the appropriate elements of distributed and shared ledger technology.

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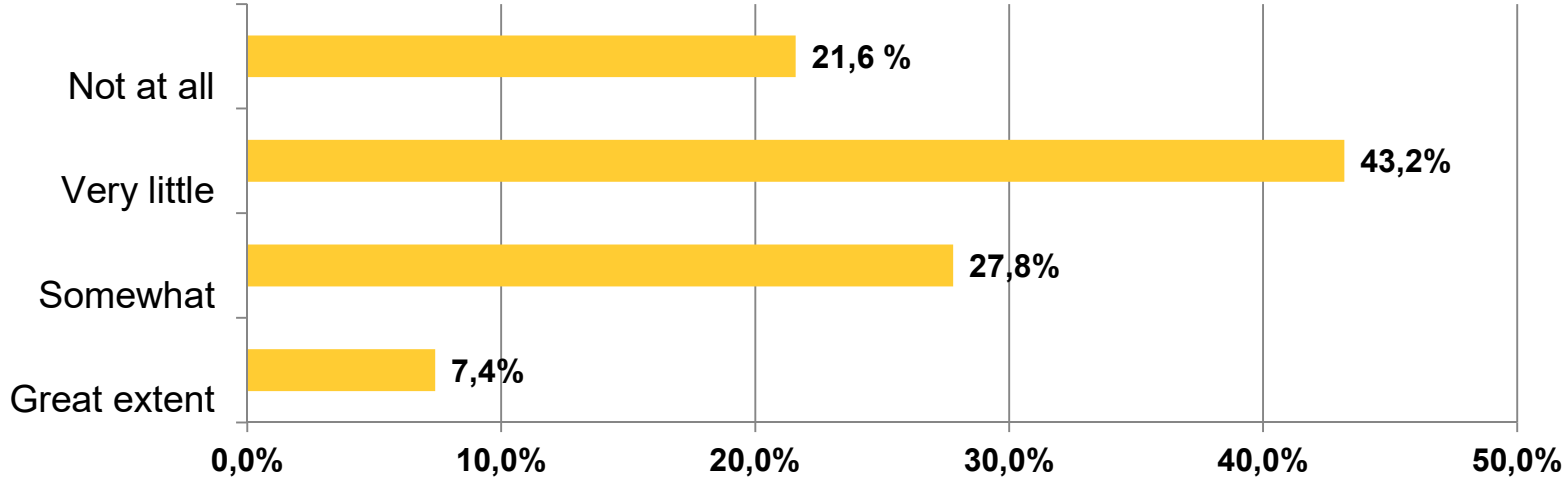
Digitalisation in Trade Finance

Extent to which banks' trade finance transactions processes are digitalised



Digitisation

› Two main challenges: **enforceability & connectivity**

› Distributed ledger technologies, artificial intelligence and big data as possible levers for trade business and product innovations

Source: ICC 2016 Rethinking Trade & Finance / Commerzbank

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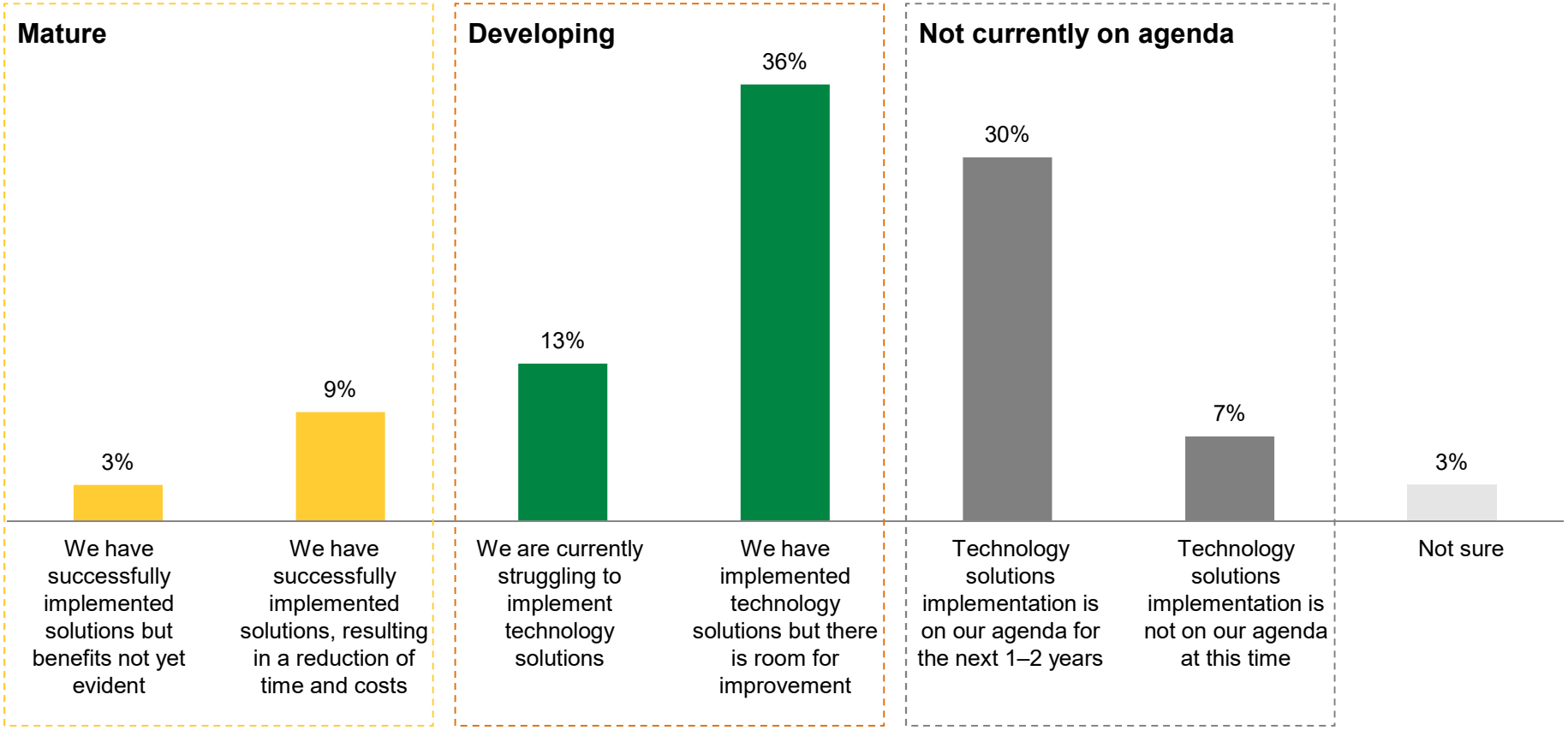
Digital progress

Implementation of a technology solution to achieve benefits such as reduced time and costs as well as improved precision associated with trade-related due diligence



Source: ICC Global Survey on Trade Finance 2018

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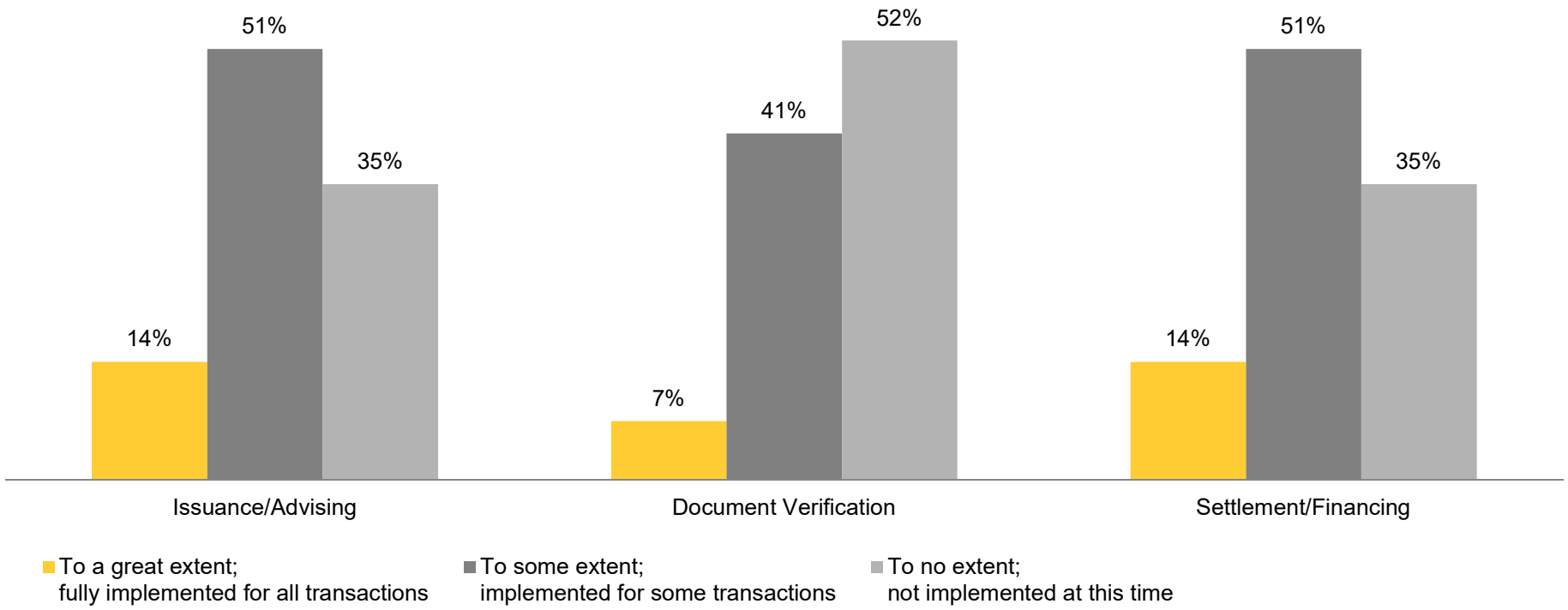
Removal of physical paper for documentary transactions



Source: ICC Global Survey on Trade Finance 2018

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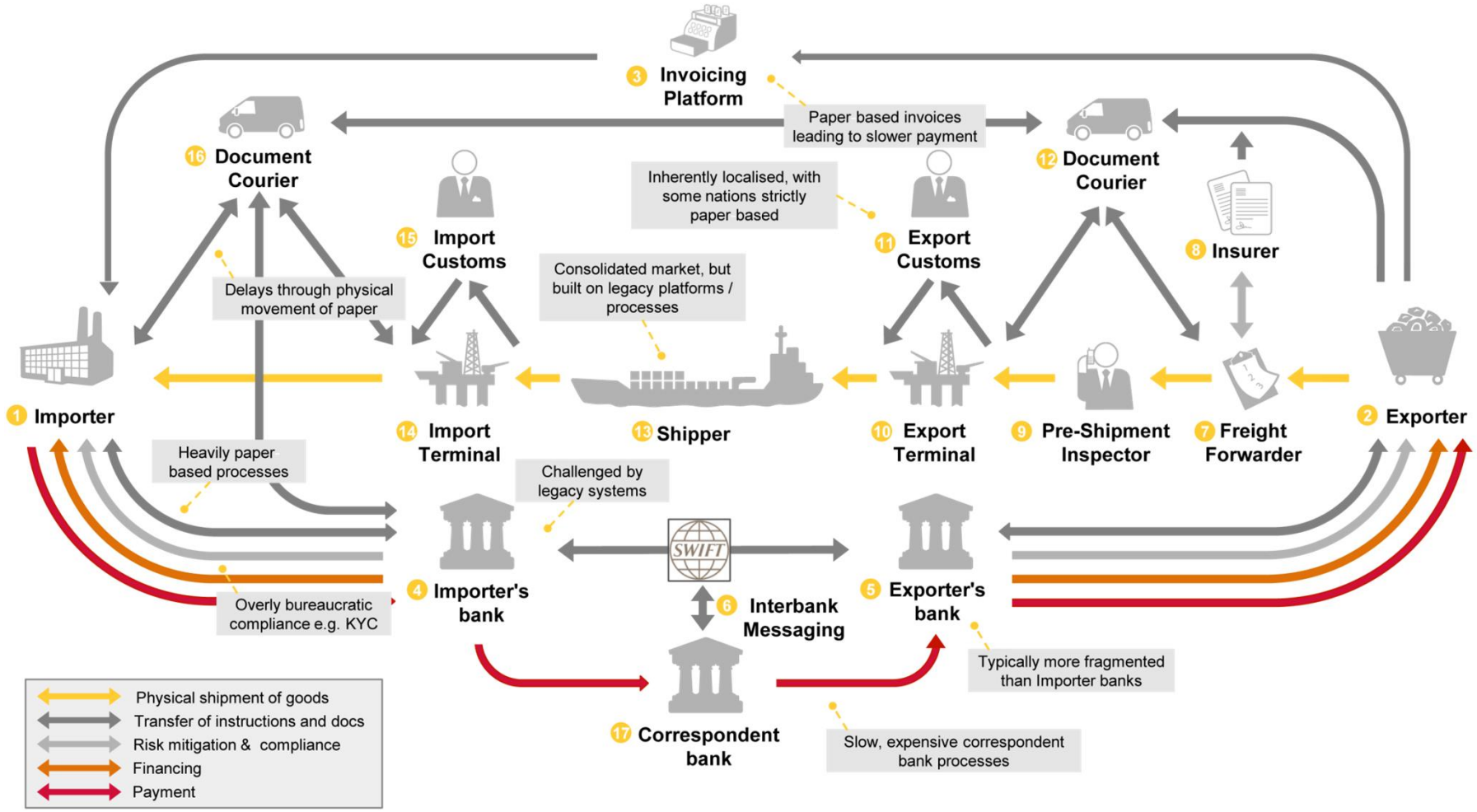
Wide variation in fragmentation and technology adoption between entities led to under-digitisation of trade finance



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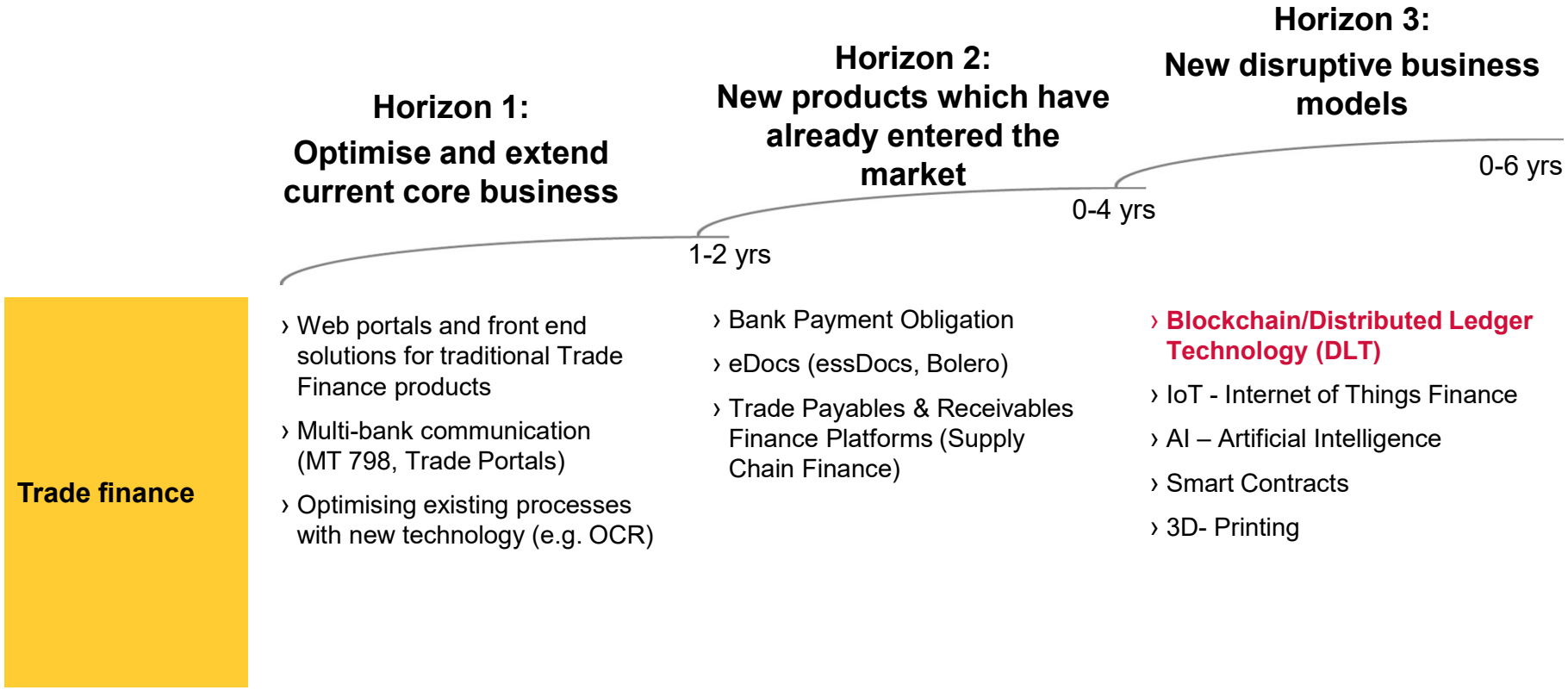
Digitisation in trade finance happens in different horizons

based on “The Three Horizons of Growth” from Mc Kinsey & Co



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Digitalization in trade – two major challenges

Interoperability	Enforceability
Digital Islands with bridges ? One global standard ? Critical size	International rules to be updated eUCP / eURC to be expected for 2019 E-bill of lading in different laws - National / EU legislation necessary - United Nations Commission on United Nations UNCITRAL - Clubs Bolero ess DOCS WAVE and many others

Solutions necessary to make it happen are currently in development

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Marco Polo Project has developed an open account trade network based on R3's DLT framework Corda

Marco Polo

Press Announcement

An **open trade finance platform** built on an interoperable business network powered by open APIs and Corda's distributed ledger technology (DLT)

Co-developed with banks, customers and other stakeholders in the trade finance **ecosystem** (e.g. logistics companies, ERP providers)

Enabling banks and companies to **streamline and automate pre and post shipment trade financing and risk mitigation** solutions

TradeIX as **experienced partner** (founders PrimeRevenue, senior TF managers, DLT experts), **global project approach within R3**

Benefits for our customers

Easy, **fast** and **cost-efficient risk mitigation** and **financing** for open account transactions reducing paper work

Convenient **multibank** access via open **API** structure

Further value adding **services** possible (data intelligence, KYC, payments networks, AI, IoT)

Planning certainty via better **transparency** across **the entire physical supply chain** due to integration of other supply chain stakeholders

Four Core Bank Partners

COMMERZBANK, BNP PARIBAS, ING, Standard Chartered

17 participating Bank Partners worldwide

BARCLAYS, BBVA, BCP, Bladex, Danske Bank, DNB, INTESA SANPAOLO, OP, NATIXIS, Nordea, SEB, SHINHAN BANK, SOCIETE GENERALE, RBS, WELLS FARGO

Two Technology Partners

TRADEIX, r3

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Commerzbank and Fraunhofer IML set up innovation lab for the future of international export and trade financing Nov 29, 2019

- Commerzbank the first bank to set up an Enterprise Lab at Fraunhofer Institute for Material Flow and Logistics IML in Dortmund
- Close cross-sector collaboration on logistics, supply chain management, supply chain finance and digital innovations
- Cooperative research approach combining business, science and innovation

In the Trade Finance Innovation-Lab, new payment and finance solutions will be developed for the Trade Finance business based on innovative technologies such as Distributed Ledger Technology (DLT), Smart Contracts and the Internet of Things (IoT), and made ready for the market. At the same time, both institutions will play an active part in helping to establish a general framework and standards for the digitalisation of international supply chain management and the related financing tools.

The Enterprise Lab Center at Fraunhofer IML brings together science and business. It already hosts several subject-specific labs set up by well-known industrial companies in sensor technology, automotive, logistics, chemicals, pharma and telecommunications. These are places where company representatives and researchers work together to analyse current and future trends in logistics and supply chain management, and assess potential scenarios in order to develop innovations and forward-thinking business models.

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Other projects you might have heard of

- R3 in general
- Voltron X (letter of credit – pilot)
- Trade Information Network, formerly Wilson (mainly supply chain financing)
- Global Trade Connectivity Network (GTCN)
- Easy Trading Connect (commodity)
- Enterprise Ethereum Alliance
- We.Trade
- KomGo
- TradeLens
- Global Shipping Consortium Formation - GSCF

and many more ….

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Digitisation of Trade

Summary

- Trade brings together different parties: buyer, seller, banks, shipping companies, forwarders, customs offices and regulatory bodies. So, a decentralized ledger of date – which can be accessed and authenticated by all – aligns perfectly with the industry's needs. It opens up the possibility of having a verified trail of data, from the purchase order through to production, inventory, delivery and payment.
- DLT may also be suitable for de-risking, particularly in the field of fraud prevention and potential double-financing of trade.
- The detection of DLT use cases in trade finance to meet the specific needs of customers along their supply chains is key.

Good to know

- Commerzbank has taken an active role in the most important digitalization initiatives such as R3/Marco Polo
- We are investing EUR 700 Mio every year towards 2020 to digitalise all relevant processes within Commerzbank
- Commerzbank is also participating in the creation of the necessary frameworks and, therefore, is a member of the ICC Digitization Working Group and others.

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Disclaimer

This presentation contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include, inter alia, beliefs, expectations and the assumptions underlying them. By their very nature, forward-looking statements involve risks and uncertainties.

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