TRADEASSETS WHITE PAPER
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The Trade Finance e-Marketplace

Digitizing the exchange of Trade Assets

How the traditional practice of deal-making in trade finance can embrace technology to become more efficient and profitable

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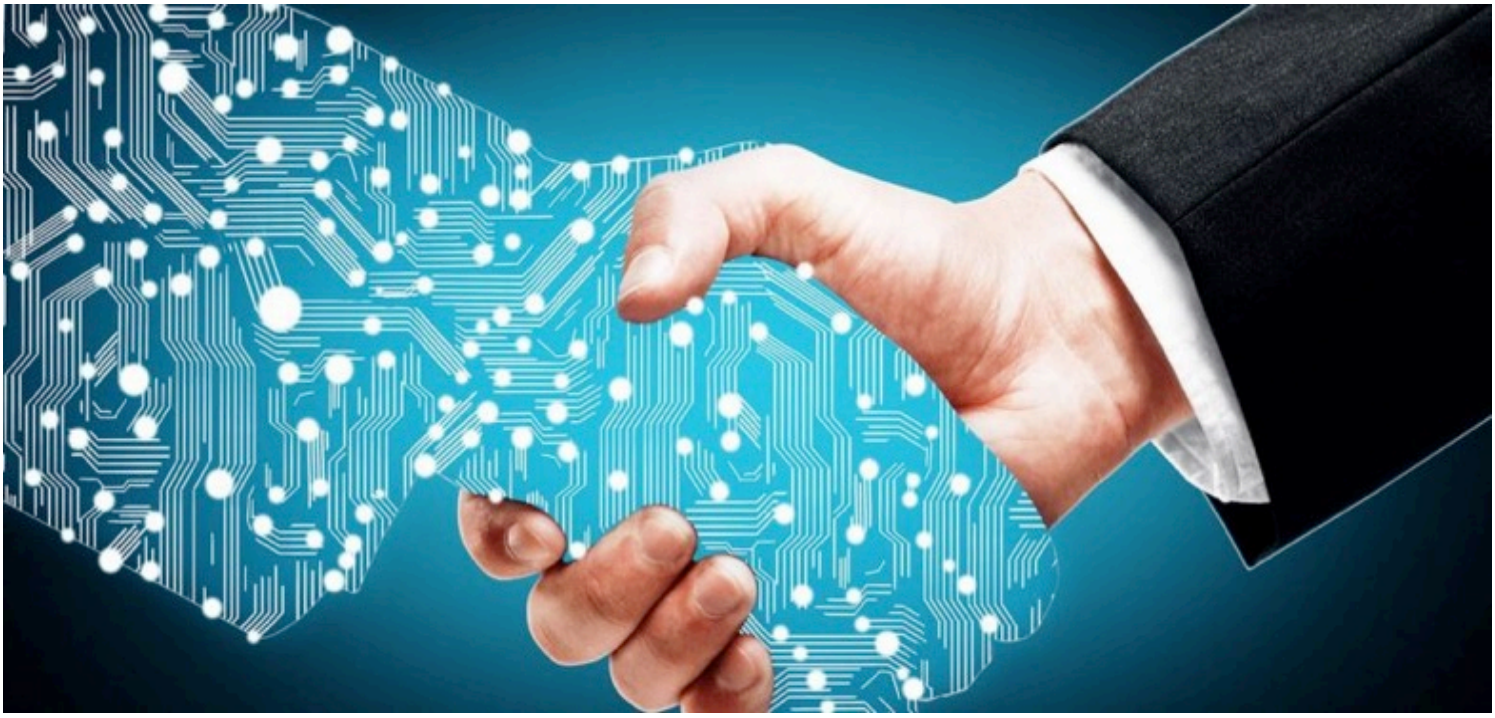


Background

Global Trade today exceeds 16 trillion dollars and facilitates the production, sale and consumption of goods and services worldwide. Banks play a critical role.

Trade Finance as a business has existed since the very inception of trade, making it one of the oldest businesses on earth. Banks have always been an integral part of trade finance, facilitating global trade through instruments. Banks finance and enable trade by issuing guarantees, Letters of Credit, Inventory Finance and other instruments and over the years banks have honed their interests towards certain geographies and industries where they have trade flows and approved credit lines.

As banks finance trade, they build a book of assets on the basis of their approved credit limits on countries, counterparties and industries. Once these limits are filled, it is a common practice for the banks to trade these 'assets' among themselves to free up their credit lines. Alternately, banks may need to acquire trade assets, based on unutilized limits or risk appetite.

The Problem

As banks continue facilitating global trade, their credit lines do not always keep up with demand. The need for these banks to trade these assets among themselves is critical to free up credit lines. On the flip side, some banks with risk appetite and liquidity are not always able to acquire assets directly hence they need to buy the same in the secondary market.

The challenge here is how this process of buying and selling has been carried out for years. Banks tend to have bilateral relationships with other banks where they have credit lines and risk participation documents, and in this process they have has created small ecosystems amongst each other where the traditional mode of communication and pricing has continued to be manual. What most people do not realize on a daily basis is the huge value of transactions that are happening this way and the potential financial benefits of digitization.

Comfort with Old Habits

While we know that global trade figures are around US$16 trillion, most bankers are not aware of the cumulative scale to which secondary market activity is carried out. Since the process of exchanging risk participation documents manually and agreeing on pricing over the phone has been ubiquitous for so long, the estimated value of US$ 1 trillion might surprise some. Then again, looking at the primary trade finance pricing, which is the same process of risk pricing between banks at the issuance stage, the value can easily approach US$ 2 trillion. This adds up to an astonishingly high value of US$ 3 trillion which is following a traditional process based on habit. While we have moved to the internet for most activities these days, in this specific case, banks are still embedded with the usage of emails and phone calls.

Bilateral Relationships are important but what about the bottom line?

While it is critical for banks to be connected to each other because of relationship, credit and KYC arrangements, among other things, it is now time to put aside old processes and examine the positive impact of automation and digitization on the bottom line

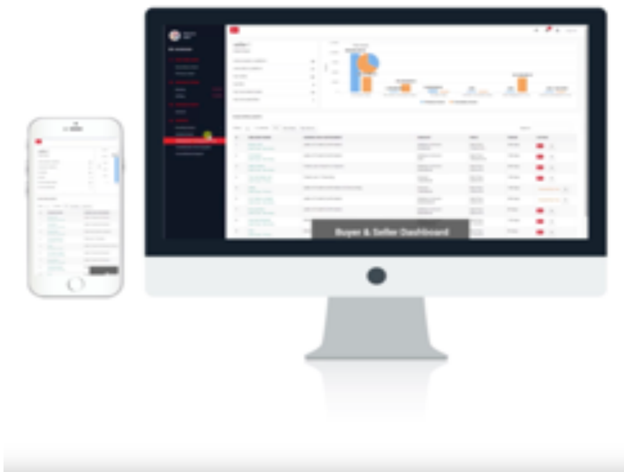
The current manual process limits the access of buying banks to potential deals available in the global markets. As a result, banks remain trading within their network of banks and focus on countries where they have approved limits. While this is a tried and tested method of conducting business, it excludes regions, banks and industries which are not on their radar on a daily basis. It also curtails the benefits of price discovery in a multilateral bidding process, even amongst existing counterparties. Phones and emails are not the most efficient way to conclude deals which require a quick turnaround time and optimal pricing. Although there are other reasons for the delay, including approval, it is estimated that closing such deals can take anywhere from 3 days to over a week.

It is a fact that speed is a critical component of money. We highlight the impact of time efficiency on revenues in page 11.

When we are going digital in every other aspect of life, why not move away from a manual process which leaves money on the table for everyone?

Embracing Digitization

Banks need a single digital window to identify, connect and conclude trade finance deals within the banking ecosystem



Rapid growth in new geographies and the formation of new trade corridors require banks to be agile, flexible and to be able to identify attractive assets or primary trade finance deals. The age old process of completing transactions over days or weeks needs to be shortened, paperwork reduced and a single window created to identify, connect and do business with the whole world

The complex, imprecise and human-resource intensive processes lead to demand-supply asymmetry. Multiple channels of communication - phone, email, fax, excel sheets and non-standard contracts - lead to inefficiencies. As processes and people strive for efficiency and scalability, this old process of trading assets within a closed group will start to evolve. The Trade Finance industry can greatly benefit from technology, the access and convenience presented by a digital marketplace which is dedicated to seamless price discovery, communication and eventually, transactions.

The financial markets have been pricing instruments digitally for decades. Reuters and Bloomberg are synonymous with one-click trading. Why is the trade finance industry lagging?

REUTERS

Bloomberg

The question any one could ask is why is there such disparity in evolution between different areas of banking? For example, when the global markets and treasury instruments have been trading digitally for so many years, why is the Trade Finance industry taking so long? The answer is that this industry has been slower to adapt to automation because of the inherent nature of most trade transactions – multiple contractual parties, shipping and transport agents, government entities, multiple banks and a unique set of documents for each and every deal. However, pricing of trade assets is an activity that is not subject to such complexity. It can be automated more easily as long as the participants are open to explore the solutions being created by Fintech companies today.

An e-Marketplace is needed by the trade finance industry as a first step towards digitization. Pricing of trillions of assets should follow a more efficient process and the only answer is to go digital.

The e-Marketplace

The Solution is a dedicated e-Marketplace which connects all banks across the world seamlessly

A secure e-marketplace for banks to conduct their Trade Finance business. Much like today's consumer who shops online, compares flights and hotels over several websites and aggregators, members of this e-marketplace will find the best deals and exercise freedom of choice. The trade finance asset pricing process needs automation, reach and security to be more profitable and efficient.

Every bank in the world is working on technology to enhance their security, efficiency and increase their profitability. However, it is impossible for one bank to simulate a marketplace and aggregate potential transactions from all over the world given the current manual process. The time and effort needed to interact and follow up with even 25 banks and strike an optimum deal is a daunting task without the support of automation.

It is the same concept as shopping for the best price for a product as a consumer before the days of eBay or Amazon.

Before eBay and Amazon, we could only shop for consumer products in physical stores. Sure, even without benefits of automation – convenience, choice and pricing - we managed. Now, after becoming used to one-click shopping, do we yearn for the old days? Of course not.

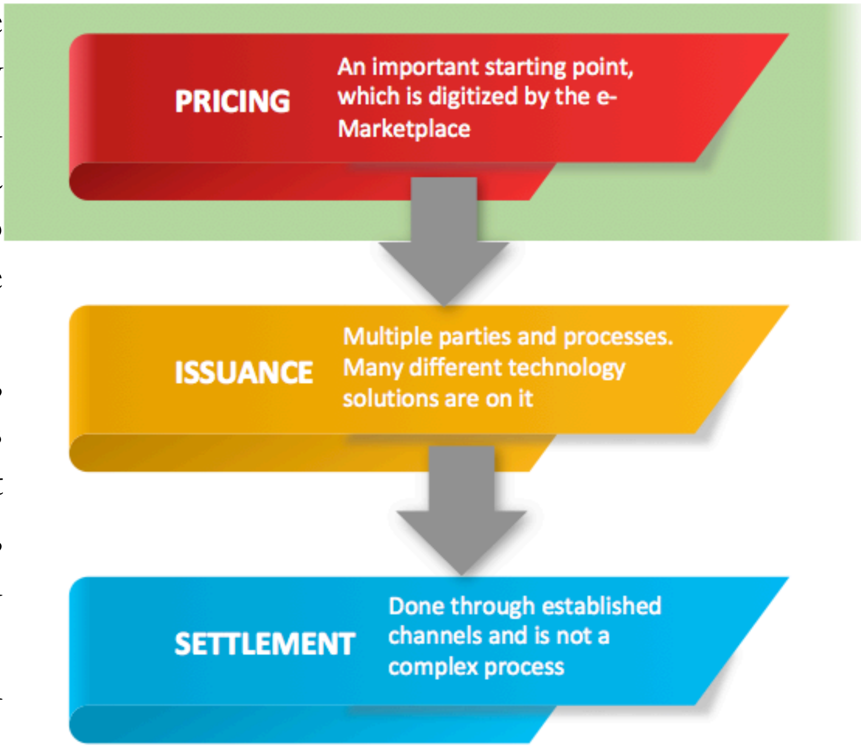
On the other hand, having individual banking platforms talk to one another and aggregate deals across banks is virtually impossible from a compliance and a security point of view. The processes and red tape required to allow a platform or another bank to integrate APIs are cumbersome and there are fears of data security.

The answer is an independent, secure e-marketplace which allows buyers and sellers worldwide to list assets for sale, bid for assets to buy, negotiate better pricing and exchange relevant documentation.

Technologies like Blockchain deliver enhanced security and stability by providing a distributed database where data is secure and cannot be tampered with. While banks themselves are implementing some of these technologies, the ability to leverage the access and convenience of a single, global platform which is as secure and does not need any expensive, complicated integration, is attractive.

Every bank will have access to the marketplace where they can view potential transactions, communicate with other parties securely and have access to reports of their transaction history.

TRADE FINANCE INSTRUMENT LIFE CYCLE



Banks can also gain market knowledge and intelligence on what geographies are presenting asset purchase opportunities and which new trade corridors are the next focus areas.

By exponentially increasing the number of buyers and sellers for Trade Finance across the globe, such a digital marketplace will facilitate growth in otherwise closed, regionalized markets and expand total trade volumes.

Technology is great and all bankers agree on the efficiency aspect of digitization. But why use a secure e-Marketplace…what are the advantages of this versus present communication channels?

The advantages of a secure e-marketplace are manifold. By conducting transactions on a platform with encrypted data, there is higher level of trust and security compared to the present practice of exchanging data and documents over email. Emails are being hacked on a daily basis. In the blockchain environment, all information is encrypted and every occurrence is recorded, which leads to a powerful audit trail and adds reliability and accountability to an informal communication channel. In today's world of security and data breaches, it is an important objective of financial institutions to ensure that their processes are not only efficient but secure. This marketplace will help make that happen.

Current Trading Process

- Low level of trust and security
- Information / data can be stolen or changed
- Data and documents exchanged by email externally
- Backup of emails or files on a centralized server
- Conversations on email or phone

TradeAssets e-Marketplace

- ✓ Encrypted information shared without risk of a privacy breach
- ✓ Platform Information/data cannot be deleted or altered
- ✓ All information transferred encrypted and every occurrence recorded
- ✓ Data stored more securely in multiple servers
- ✓ Deals, discussions and documents move securely over the platform

The financial impact of an e-Marketplace is simply articulated: "If you conclude transactions faster with more parties there has to be a positive impact on the bottom line."

A bidding process yields better PRICING. For a turnover of USD 100M, a 10 bps benefit is worth USD 100,000	Access to more assets will yield a higher VOLUME: One deal for USD 50M priced at 50 bps will earn the buyer USD 250,000

The math is also clear on the value of time; with the same volumes, if you just reduce deal time from 4 days to 3 days, your turnover and revenues will increase 25%

The Technology

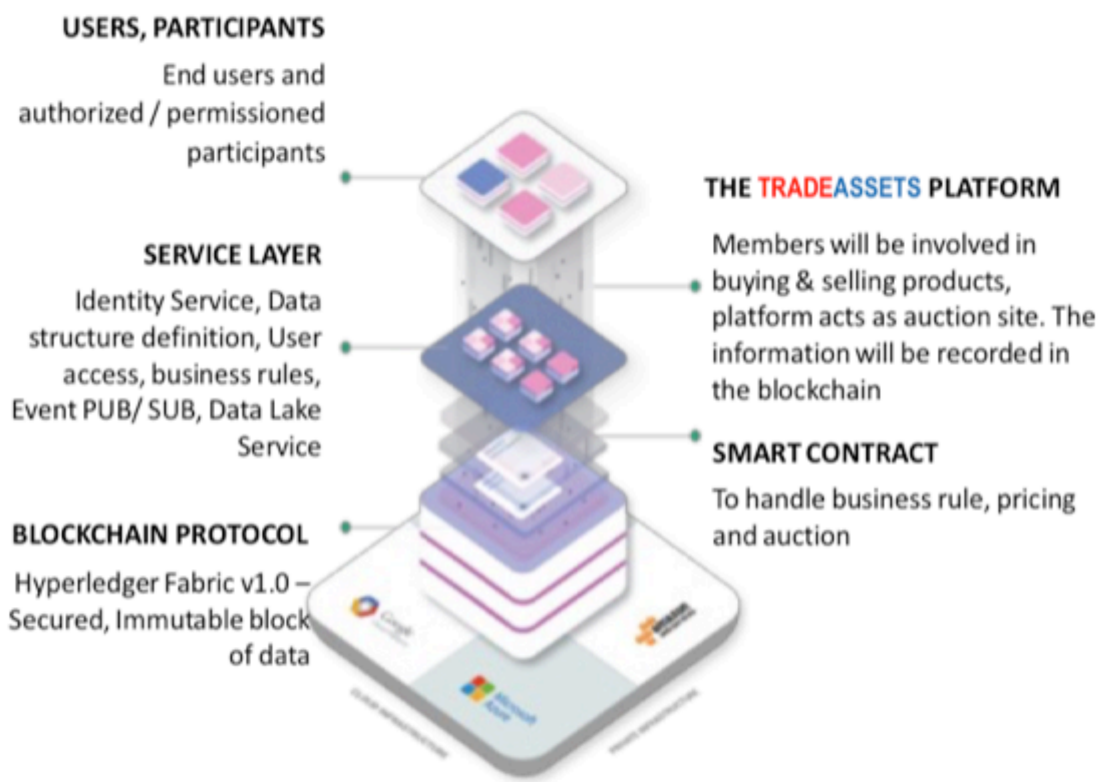
TradeAssets is the first Trade Finance e-Marketplace of its kind for banks.

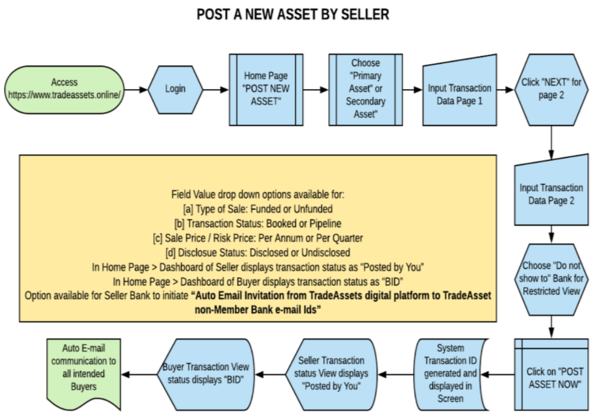
The technology behind TradeAssets is Blockchain. It is built on Hyperledger fabric 1.0, a blockchain implementation hosted by Linux foundation, providing an enterprise-grade foundation for transactional applications.

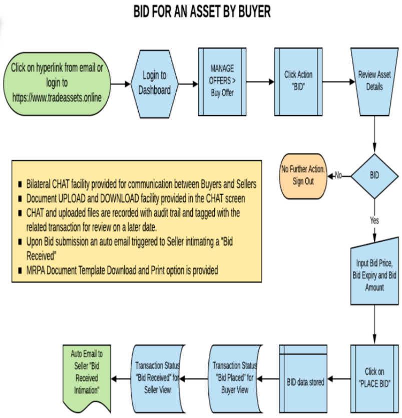
Blockchain is a distributed database on a smartly designed protocol that maintains a continuously growing list of data records, resistant to tampering and revision, even by its operators

These records or 'blocks' are linked with a 'hash' pointer, a time stamp and transaction data. Think of blockchain as a magical set of books owned by many people. If someone writes in one book, it is automatically copied in all the books. If anyone tries to change something in their book, it is visible to all and is blocked.

A blockchain can record transactions between parties in an efficient, verifiable and permanent manner. Blockchain is recognized as the missing layer of 'trust' in the internet.

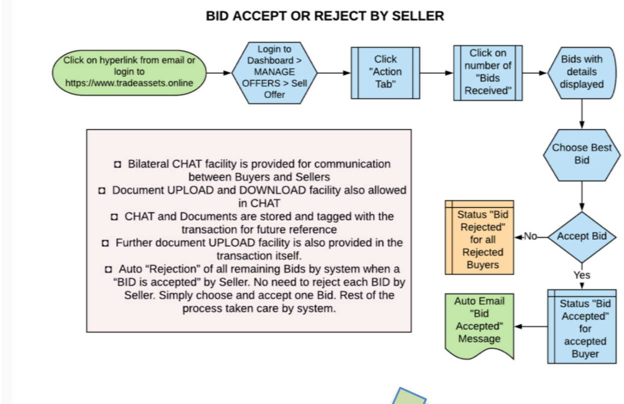


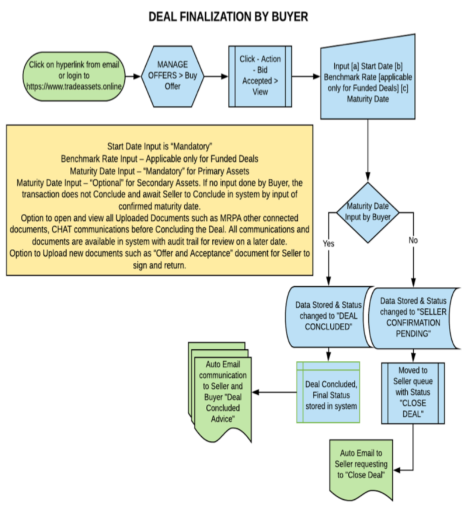




The solution does not come from technology. It is about knowledge and understanding.

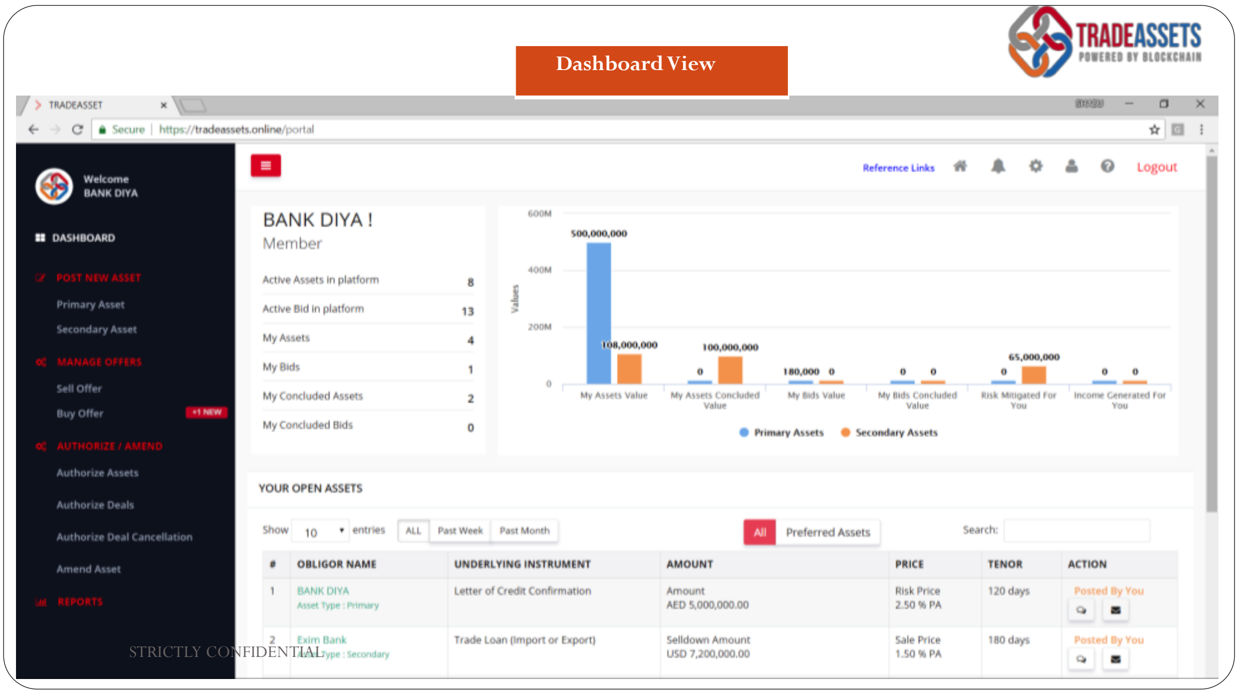
To create a digital platform out of existing processes, it is important to have industry experts map out the current manual process in a step by step fashion, and create the automated system that replicates that process and to a certain extent, even simplifies it. The banking industry has many different touch points and it is important to see that any system solution does not deviate too much from existing practice, or else it will not get adopted.





The only technology that will succeed in replacing a manual process is the one that makes the 'switch' effortless for the participants. Only trade finance insiders can design a system that works for their peers.

The platform built by TradeAssets mirrors the process and steps carried out by the industry. Only a Trade Distribution specialist can design a distribution platform and only a group of trade finance and financial institution bankers can specify what functions and features would help them carry on their daily business. This is a longer build process because it involves post-production changes based on beta testing feedback from many different sources. However, it is the only way to ensure sustainability of the solution through wider market acceptance and usage.



Vision for the Future

"To enable financial inclusion we need to embrace the processes that facilitate it. A large group of connected institutions globally is more beneficial to society compared to smaller, reciprocity-driven ecosystems. The main step towards that goal is to embrace a bit of change, that's all."

Sumit K Roy, President & CMO, TradeAssets

"Digitization will create efficiency and financial value for all those who adopt it. It will add productivity. It will create wealth and help distribute it better. All that is needed from the financial community is an open mind."

Lakshmanan Sankaran, Chairman & CEO, TradeAssets

"Trade Finance is now seriously going digital. Market places such as TradeAssets are making trade finance operations far more efficient and helping financial institutions reach out much more easily to their counterparties. Once a financial institution moves to platform-based trade operations, it never wants to go back to previous email-based trading. This is the future and it ought to be digital."

André Casterman, ITFA Board Member and Chair of ITFA Fintech Committee

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