Digitalization in Trade Finance Involving Negotiable Transport Documents

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Executive Committee
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Main Contents

- Global Trade Finance Digitalization Trends
- Digitalization trade finance practice in China
Trade Finance Digitalization Trends

- Rapid growing demands
- Limited substantial progress
- Laws/regulations lagging behind
- Lack of uniform rules/standards
Regulations on Paper-based Documents

☑️ Over 50% of respondents: documentation was no longer mandated to be paper-based in the context of trade financing.

Source: 2020 ICC Global Survey on Trade Finance
### Trade Finance Digitalization Trends

- Regulations on Paper-based Documents: Inconsistency across different legal jurisdictions

![Trade Finance Digitalization Trends Table](chart.png)

Source: 2020 ICC Global Survey on Trade Finance
Trade Finance Digitalization Trends

- Using **eB/Ls** or other electronic documentation: Only 24% of banks

<table>
<thead>
<tr>
<th>Instrument and Solution</th>
<th>All Banks</th>
<th>Mature</th>
<th>Developing</th>
<th>Not currently on agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online platforms for trade finance solutions</td>
<td>60%</td>
<td>47%</td>
<td>63%</td>
<td>95%</td>
</tr>
<tr>
<td>SWIFT MT798</td>
<td>33%</td>
<td>37%</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Application Programming Interface (API)</td>
<td>28%</td>
<td>25%</td>
<td>21%</td>
<td>28%</td>
</tr>
<tr>
<td>Electronic Bills of Lading and other electronic documents</td>
<td>24%</td>
<td>24%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Imaging and optical character recognition technology</td>
<td>17%</td>
<td>21%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Big data analytics</td>
<td>17%</td>
<td>15%</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Distribution ledger technology</td>
<td>15%</td>
<td>15%</td>
<td>37%</td>
<td>8%</td>
</tr>
<tr>
<td>Bank Payment Obligation (BPO)</td>
<td>13%</td>
<td>14%</td>
<td>26%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: 2018 ICC Global Survey on Trade Finance
The most common digital trade technology implemented: Online platform for trade finance (55%)

Source: 2020 ICC Global Survey on Trade Finance
Most banks have removed the use of physical paper for documentary transactions to some extent, but differences exist.

<table>
<thead>
<tr>
<th></th>
<th>Local Banks</th>
<th>Regional Banks</th>
<th>Global Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance/advising</td>
<td>13%</td>
<td>14%</td>
<td>29%</td>
</tr>
<tr>
<td>Settlement/financing</td>
<td>13%</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Document verification</td>
<td>8%</td>
<td>45%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: 2020 ICC Global Survey on Trade Finance
Digital documentary trade and open account trade transactions are minimal.

What percentage of documentary trade transactions do you receive digitally?

What percentage of open account trade transactions do you receive digitally?

Source: 2020 ICC Global Survey on Trade Finance
Trade Finance Digitalization Trends

- Main barriers for implementation of digital solutions:
  - Building internal capabilities
  - Regulation and client needs

Source: 2020 ICC Global Survey on Trade Finance
ICC Rules/Work on Digitalization

**ICC e-Compatible Rules**

1. URDG758
2. ISP98

**ICC e-Rules**

1. eUCP V. 2.0
2. eURC V. 1.0
3. URBPO
4. URDTT (In progress): covering the use of Electronic Records to process Digital Trade Transactions
Electronic record means data created, generated, sent, communicated, received or stored by electronic means, including, where appropriate, all information logically associated with or otherwise linked together so as to become part of the record, whether generated contemporaneously or not, that is:

- capable of being authenticated as to the apparent identity of a sender and the apparent source of the data contained in it, and as to whether it has remained complete and unaltered, and
- capable of being examined for compliance with the terms and conditions of the eUCP credit.

Electronic signature means a data process attached to or logically associated with an electronic record and executed or adopted by a person in order to identify that person and to indicate that person’s authentication of the electronic record.
URGENT
3 April 2020

ICC MEMO TO GOVERNMENTS AND CENTRAL BANKS ON ESSENTIAL STEPS TO SAFEGUARD TRADE FINANCE OPERATIONS

- Adoption of the UNCITRAL Model Law on Electronic Transferrable Records.

As a subsequent step, we encourage all governments to rapidly adopt legal frameworks to clarify the functional and legal equivalence of electronic and paper-based documents.

To this end, we encourage governments to consider implementing the 2017 United Nations Commission on International Trade Law Model Law on Electronic Transferable Records (MLETR)—which provides the clarity necessary for widespread adoption of digitalised trade and trade finance instruments.

Guidance paper on the impact of COVID-19 on trade finance transactions issued subject to ICC rules
Main Contents

- Trade Finance Digitalization Trends
- Digitalization trade finance practice in China
Digitalization Applications in Trade Finance

- Cross-border Remittance
- LC
- Collection
- BPO
- Bill of exchange

Settlement

A

Financing

B

Applications

C

Guarantee

D

Risk controls & Compliance

- Traditional trade finance
- SCF
- Factoring
- Forfeiting
- ...

- Credit risks control
- AML/KYC
- Sanctions screening
- ...

- Bid guarantee
- Customs guarantee
- Payment guarantee
- ...

- Risk controls
- Compliance
Disadvantages: Inefficient, high error rate, difficulty in timely modification, invisibility of the whole processes
Digital solutions in Trade Finance

Scenario 1: Scanned, faxed or emailed copy of original B/L

1. LC Application
2. Issuing LC (UCP600)
3. Issuing paper B/L
4. Paper Docs
5. Email scanned docs + SWIFT notice
6. Payment?
7. Release docs?
8. Taking deliver of cargo against original B/L?/Shipping guarantee?
Digital solutions in Trade Finance

Scenario 2: eB/L supported by third party platform (internet-based)

1. LC issuance application
2. Issuing LC (eUCP)
3. LC advice
4. Shipment
5. Scanned copy/Data record of B/L
6. E-docs/Paper docs (if any)
7. E-docs/Paper docs (if any)
8. Payment
9. Transfer ownership of e-B/L, release documents
10. Take delivery of cargo

Third party platform

Issuing bank

Advising/Presenting Bank

Beneficiary

Note: E-documents in scanned pdf format copies or data record depending on third party platforms
Digital solutions in Trade Finance

Scenario 3: Blockchain eB/L issued by carrier

1. LC Application (eUCP)
2. Issuing LC(eUCP)
3. LC Advice
4. Issuing eB/L & Notice email
5. Review original eB/L on line & request correction or reissuance / Download copy eB/L
6. e-docs/paper docs (incl eB/L)
7. e-docs/paper docs (incl eB/L)
8. Payment
9. Transfer ownership of e-B/L, release e-docs/paper docs (incl eB/L)/
10. Take delivery of cargo

BLOCKCHAIN BILL OF LADING
Thank you for your attention.

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