

FEDAI organized a seminar on Use of Emerging Technologies specially Blockchain Technology in Trade Finance for Authorized Dealer Cat I banks on 27th November 2018 @4.00pm.

39 Officials from 21 banks attended the seminar. The seminar was chaired by FEDAI Chief Executive Mr. Ashwani Sindhvani.

Key speakers were –

Mr.R Karthikeyan GM , Dept of IT, RBI

Mr. Shiva Iyer,

Mr. Rajeev Khare, Manager, Risk Assurance Services, PWC

FEDAI Chief Executive welcomed all member banks and officials of RBI. In the opening remarks he drew attention of all banks on following points –

- Existing process of international trade processing including financing of trade is very paper intensive making it very time consuming and operationally inefficient.

- Any change in the process is not easy because of involvement of multiple entities like seller, buyer, banker, shipping agencies, custom authorities etc.

- The problem is universal affecting all stake holders and cannot be addressed just by adoption of latest technology but also involves legal and regulatory issues

- RBI & Customs, have made significant progress in the direction of digitization by introducing EDPMS, IDPMS system for processing all physical goods imports into, exports from India.

- Several banks are working towards digitization of trade transactions but most of this is happening in silos or in smaller groups, on trial basis. There is a need for the banking industry to come together and work towards better understanding of new emerging technologies, potential issues, ideal solution and possibly a common platform for this process to gather steam and develop an industry wide standard solution. Blockchain can be an effective tool towards this goal.

Mr Karthikeyan, GM (Dept. of IT), RBI stressed on how presently Cryptocurrencies is the only popular use of Blockchain and why we need to explore other possible uses of the technology to improve overall efficiency and better risk management. He also talked of the need for all concerned to come together to leverage the use of this technology for digitization of transactions so that it becomes the accepted way of doing such transactions rather than being confined few one-off transactions restricted to few select market players.

Chief Executive requested Mr. Shiva and Mr. Rajeev from PWC to explain the features of Blockchain Technology and its possible applications in the banking industry.

Mr. Shiva from PWC explained the basic building blocks of Blockchain Technology, the advantages and applications of the technology in financial industry as well as other areas of economy. Mr Shiva explained that Cryptocurrency is a subset and one of the many applications of Blockchain technology. Blockchain as a Distributed and decentralized Ledger Technology involving multiple Nodes (controlled and managed by parties to the transaction) eliminates the need for external third party. It relies heavily on building trust between the various counterparties using it. Mr Shiva also informed that

Government of Maharashtra is also considering the possibilities of using the Blockchain technology for efficient delivery of public services.

He highlighted that use of appropriate technology will help simplify the trade finance process by moving away from paper-based approach to much quicker and reliable digitized trade flows. The Blockchain platform is designed to make transactions flows more efficient, transparent, secure and cost effective with data stored over democratized network. The platform will allow buyers, sellers and their banks to execute transactions in a secure manner with high degree of efficiency and transparency.

Chief Executive, informed that in India two-member banks namely ICICI Bank & HSBC Bank have successfully processed trade transactions in digital mode, on pilot basis. He requested both the banks to share their views as well as experiences in developing the system and actual processing of such transactions.

Mr. Ranadeep from ICICI Bank explained that in 2016 itself they had processed a trade transaction for a corporate client internally between ICICI Dubai and ICICI Mumbai through Blockchain where the documents were exchanged digitally through Blockchain, payment however was by the normal settlement system. A consortium of 3 banks was formed to initiate the processing of transactions digitally which has now expanded to 11 banks.

Ms. Delna from HSBC explained that recently they processed one export trade transaction between Reliance Industry and US based Tricon Energy through blockchain on a pilot basis. Their experience of the transaction was that it is much faster and increases overall efficiency and ease of doing business for all parties concerned. In their case the time taken for the transaction upto settlement was cut down from normal 10-12 days to 2 days.

All such transactions are done more as proof of concept parallelly maintaining the necessary paper as well.

Ms Delna also explained that the blockchain system is very efficient and transparent. Even though the data is loaded on an external platform i.e. Bolero in this specific case, security is not compromised, access is restricted only to the parties involved in transaction.

She also briefed about the consortium of banks working together to develop the system of digital processing and handling of trade transactions.

After the presentation the attendees were given an opportunity to discuss specific issues, seek clarifications if any. Most of the questions were around legality of such transactions and the possibility of hacking. Members were of the view that while hacking cannot be ruled out, blockchain technology does not make the transaction less secure

than the present system. PWC representatives also explained that as State Governments were keen on adopting this technology, government is studying the legal measures to be introduced to bring the use of this technology within the legal framework.

The meeting concluded with the Chief Executive FEDAI observing that while much work is needed to be done before this technology is adopted in a big way by concerned parties, the idea behind the seminar was to get member banks to start thinking about the options available and work towards better understanding and possible adoption.

Seminar ended with vote of thanks to RBI & all members followed by high tea.

Follow-up – Based on the interactions it was very obvious that use of technology is certainly going to increase and is imminent for growth of international trade. Increased use of technology is the only way to make the process more efficient and competitive at international level. Need of the hour is to explore possible alternates and based on comparative study choose the most appropriate solution which is in line with global developments, is scalable and flexible enough to communicate and plugin with existing systems banks are currently using in India.

Conducting similar seminars, discussion forums involving all banks, regulators, other agencies would help develop a common approach and better understanding of the issues involved.