

Case Study

Receivable Finance



Rewiring Trade Finance

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"We selected TradeIX as a partner because of its rare combination of deep technology expertise and extensive knowledge of the trade finance market." Neil Ross, Global Head of Trade Credit at AIG



Fortune 500 Logistics Company

Managing invoice payments and terms can be time-consuming and inefficient for companies and their trading partners.

There are different currencies, jurisdictions with unique requirements in terms of contract terms and payments. Because of this, companies often establish multiple, local, trade finance programs, which can involve duplication, inefficiencies and minimal standardization across the organization. This makes it harder to optimize working capital and have effective visibility of compliance and counterparty risk across the company.

Situation:

A Fortune 500 logistic company had the ambition to differentiate themselves in a competitive industry and combine their core product offerings with trade finance solutions making them available to their clients.

They looked for a solution to efficiently extend payment terms for their key clients and optimize working capital at the same time through partnering with banks and credit insurers.

“By using this blockchain-enabled platform, clients are able to benefit from the extended ecosystem that trade finance brings, but with a reduction in friction and cost and an improvement in speed and transparency.” Marilyn Blattner-Hoyle, Head of Supply Chain and Trade Finance at AIG



Challenges:

The challenge was to deal with the fragmented financial market offerings, which forced them to work with multiple banks, platform providers because of risk appetite and funding constraints. Other challenges included:

- Need to use multiple different platforms and portals
- Painful, costly integrations
- No fully integrated, automated solutions
- No flexibility in existing solutions

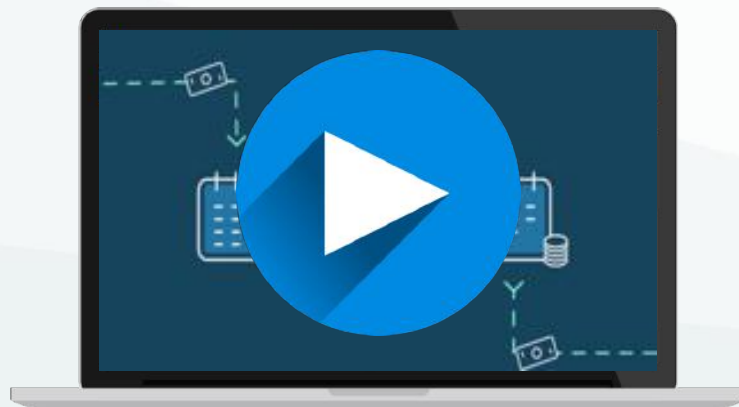
Goals:

The company's goal was to create a future-proof platform for trade and working capital initiatives with the following three objectives:

- Extend credit terms for their key clients without impacting or even improving Days Sales Outstanding (DSO) and optimize working capital
- Broaden their funding base and leverage transactional credit insurance
- Deploy extensible trade finance solutions to their ecosystem
- Easy and efficient connection to existing platforms of the participating parties through APIs (Application Programming Interfaces)

Click below to view video

<https://www.youtube.com/watch?v=d5YUQ7-b564&t=4s>



Solution



First blockchain-enabled trade finance transaction with financing provided by Standard Chartered Bank and credit risk mitigation from global insurer AIG.

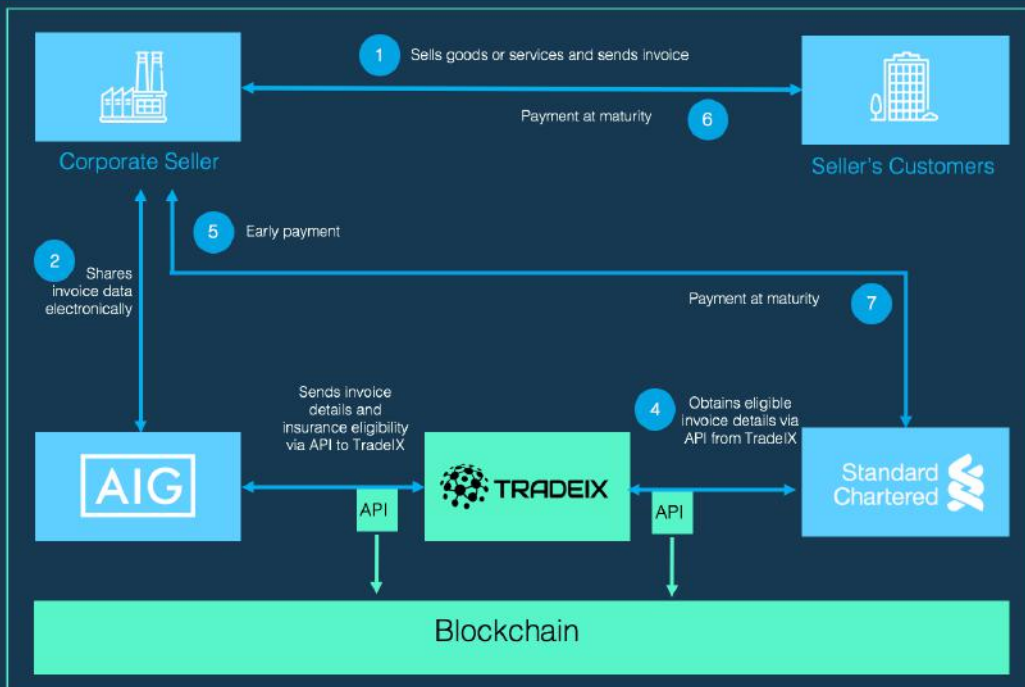
The receivable finance program enables the logistics company to help its customers extend their payment period whilst maintaining the company's receivables at current terms.

TradeIX provided its TIX platform powered by permission-based distributed ledger technology. By using this shared ledger, the logistics company can have their invoices placed securely on the TIX platform, giving real-time visibility to manage customer terms and credit risk.

All details of the invoice and the eligible insured amount are securely recorded on the distributed ledger. The invoices are sold to Standard Chartered Bank and credit insured by AIG.

TradeIX provides its fully automated and integrated APIs combined with its powerful rules engine, and TIX Core leveraging distributed ledger technology. The logistic company is benefiting as follows:

- Single interface to multiple funding and risk mitigation options
- Simple, secure integrations into existing systems of bank, trade credit insurer, and corporate provide fully integrated, end-to-end solution; no new apps or portals required
- Blockchain technology provides single source of truth and powerful trading engine for assets, available in real-time to all parties now and in the future
- Fully extensibility with the ability to add new participants, solutions, integrations with ease
- Future Proof creating foundation for flexible, integrated, highly-connected, and automated trade finance ecosystem



"Digitalization of trade and trade finance is integral to our strategy and by working together with leading fintechs, we can create innovative solutions to better support the financing and information needs of our clients and their ecosystem of buyers and sellers." Farooq Siddiqi, Global Head, Trade, Transaction Banking at Standard Chartered

Detailed Process Overview

The TIX Composer, the rules engine within the TIX Platform allows the logistic company to manage the following trade orchestration customized to their specific requirements.

Uploading Invoice upload

At least once daily, the logistic company (seller) is transmitting a daily activity report allowing for new or updated invoice data to be written directly to the blockchain via an API.

Creation and management of the credit insurance rules and conditions for the trade finance transaction

Based on the defined management rules, new or updated eligible amounts, unique endorsement IDs, the corresponding eligible amount expiry dates and time stamps are written to the blockchain

Setting up automated offers

The offer creation process is run automatically on the TIX Platform on an agreed schedule of days within a specified time period of a business day using the latest invoice data and eligible amount from the blockchain. The TIX Platform uses CIP (Customer Identification Program) rules to automatically package eligible and unexpired invoices into offers.

Once the receivables have been offered, the blockchain is promptly updated inclusive of the eligible invoices, constituting the commercial details of the offer for sale by the logistic company (seller).

Setting up automated bid rules

In a second stage, the TIX Platform automatically creates a bid on behalf of Standard Chartered Bank and auto accept of the bid on behalf of the logistic company (seller) based on the CIP rules. The bid include estimated funding charges to include the purchase price, base rate, margin, network fees and insurance premium, with all the data updated on the blockchain.

By using the TIX Composer rules the platform forecasts the funding payment date and estimated settlement date in order to determine the funding terms and the estimated funding charges.

Setting up automated funding

Each day, the TIX Platform makes an automated bid by creating a request for funding on behalf of the logistic company (seller), while sending the funding request to Standard Chartered Bank via the TIX API.

Upon receipt of the request for funding file Standard Chartered Bank promptly processes the invoices for payment and delivers to the TIX platform the funding confirmation, which is updated on the blockchain.

Defining settlement rules

Each day, the TIX platform issues an automated settlement instruction to the logistic company (seller) for any settlement payments that are now due to Standard Chartered Bank. The settlement instruction includes the estimated settlement date categorized as:

- Money Settlement
- Dilution Settlement
- Re-Purchase Settlement

All settlement details are written by the TIX Platform to the blockchain including the estimated settlement payment date.

Reconciliation and reporting

The TIX Platform reads on daily basis the latest invoice data from the blockchain as well as produce and sends to the the logistic company (seller) a reconciliation report that details all invoices with the open remaining balance or funded remaining balance.

In addition, the TIX Platform produces a daily file including forecast dates and charges from the bid and sends the report to the logistic company (seller).



About TradeIX

TradeIX is rewiring the \$8 trillion trade finance market with the TIX Platform, an open platform providing applications, technology tools, and core infrastructure for the trade finance ecosystem. The TIX Platform enables trade finance parties to more easily, flexibly and efficiently connect to the broader trade finance market, including suppliers, buyers, service providers, B2B networks, credit underwriters and financial institutions. The platform provides benefits to all trade finance parties through enhanced funding opportunities, lower cost and reduced risk.



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