Payment Commitment
Case Study

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Overview

Trade Finance processes have long been waiting for a revolution in the way they are being managed today. Despite being in the 21st century and the era of automated cars and online shopping, trade finance processes are still heavily reliant on paper and characterized by siloed operations and antiquated systems. With increasing demands around working capital finance, coupled with new government and global regulatory requirements on data management, many of these old siloed systems that financial institutions and corporates have been using are just not fit for purpose going forward.

The good news is that the technologies to force and provide for that change have finally arrived. They have the ability to connect all of these broken and siloed processes and put them onto a highly distributed, private and safe platform that can facilitate global trade for all parties involved.

TradeIX is a fast-growing global company, headquartered in Dublin, Ireland whose Marco Polo platform is powered by blockchain facilitating the movement of assets and credit around the world. As one of the world’s first open platform for trade finance, it aims to unlock the potential of trade and working capital finance in today’s supply chains.

Started in 2017, the Marco Polo Network operates on TradeIX’s Marco Polo platform and leverages the Corda blockchain protocol from R3. It is the first trade network based on distributed platforms allowing participants to offer and access a complete suite of trade and working capital solutions all in one place. The Marco Polo Network offers its members a true competitive advantage with its collaborative environment and highly customized offerings featuring new customer experiences.

Today, Marco Polo is the largest and fastest growing trade finance network with over 30 financial institutions such as Bangkok Bank, Bank of America, BNP Paribas, Commerzbank, ING, LBBW, Natixis, SMBC, and Standard Chartered Bank. The Marco Polo Platform was successfully tested and trialed by over 70 leading organizations including Daimler, Dürr, MAN and Voith.

This case study demonstrate capability of Marco Polo’s Payment Commitment solution for practical use and provides an overview of the trade finance orchestrations offered via the Marco Polo Network.
Payment Commitment

Traditionally trade instruments for international trade include solutions such as letters of credit (LC), guarantees and documentary collections, causing inefficiencies in terms of cost and time. While the trade ecosystem today continues to use traditional methodologies, it has grown into a billion-dollar global industry with a multiplicity of players and different cross-border regulatory frameworks and requirements. Such complexity means inefficiencies, costs, and time requirements for corporates to trade with their customers.

Payment commitment is a trade finance instrument that offers corporates and their banks a secure digital means to manage trade finance solutions. It is a standardized irrevocable payment instrument for enhanced trade finance transaction settlement, based on the handling of digitized data of the physical supply chain. Payment commitment serves as a legally binding promise to execute payment for goods or services, based on the successful matching of agreed electronic trade data.

It is an irrevocable and independent undertaking of an obligor (buyer/importer) or its bank to incur a deferred payment obligation. At maturity, the payment is made to the recipient’s (seller/exporter) bank following the successful submission and matching of data sets as required by the respective parties.

At different points along the physical supply chain (for example, production, shipment and payment), trade partners have a need for mitigating risk and obtaining financing. Payment commitment provides a payment undertaking with possible financing against electronic matching of data of the physical supply chain (e.g. PO data, invoice data, shipment data) at different points of the supply chain.

Funding of the payment commitment is transaction-based and refers to larger financing facilities. It enables the corporate to take advantage of its relationship with its bank to offer financing and risk mitigation services where the corporate has limited experience, risk appetite, and/or long-term relationships with its trading parties.

Benefits

For The Buyer
- Goods received as expected based on data matching
- Controlled input into the specifics of the payment conditions, as facilitated by the data-matching

For The Seller
- Guarantee of payment in full on a specific due date
- Ability to raise financing with deferred payment terms
- Lower implied cost of funding than would have been incurred under other financing structures

For Both Corporates
- Fast, automated and seamless transaction settlement processing
- Improvement to the efficiency of the working capital cycle
- Risk mitigation and financing for open account transactions
- Reduction of complexity involved with paper-based processes
Payment Commitment

The payment commitment solution offered on the Marco Polo Platform eliminates the challenges of time and cost inefficiencies faced by current solutions like letter of credit (LC) and bank payment obligations (BPO). It makes it easy for trading partners and banks to transact in a more secure, cheaper, easier and more efficient way.

Leveraging Corda blockchain technology from R3, the features and benefits of the payment commitment solution include:

- Automated matching of trade data with early discovery of discrepancies
- Faster assured payments by preventing disputes arising from contract ambiguities
- Transparency and trust where banks and trading parties are all on the same platform with the ability to communicate with each other without engaging in complex integrations across multiple systems
- Consensus mechanism within the Marco Polo Network ensures that there is only one single version of the underlying data
- Entire transaction process based on a digitized workflow resulting in substantial reduction in time and costs
- Convenient multi-bank access via open API (Application Programming Interface)

Marco Polo, as an open network, provides any financial institution, corporate, B2B network and other supply chain constituent access to opportunities across a broad global trade ecosystem.

“We focus on efficiency increases not only with regard to our machines and systems, but also to our business processes. The successful pilot project between Daimler and LBBW demonstrates the intrinsic efficiency potential of digital trade finance processes. Innovative platforms and technologies such as Marco Polo and Corda allow us to reduce complexities in order fulfillment - to the benefit of all participants.”

- Susanne Schlegel, CFO of Carl Schenck AG and Dürr Division Measuring and Process Systems

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Case Study Spotlight One
Three Corner Model Utilizing Payment Commitment

Buyer/Obligor - Daimler
German multinational automotive corporation. One of the biggest producers of premium cars and the world's biggest manufacturer of commercial vehicles. Daimler provides financing, leasing, fleet management, insurance and innovative mobility services.

Seller/Vendor - Dürr
One of the world’s leading mechanical and plant engineering firms headquartered in Bietigheim-Bissingen, Germany and listed on the Frankfurt Stock Exchange. Dürr’s customer segments include automotive manufacturers and their suppliers, the woodworking industry, the mechanical engineering sector as well as the chemical and pharmaceutical industries.

Bank - LBBW
Landesbank Baden-Württemberg (LBBW) is a medium-sized universal bank and the central bank of the savings banks in Baden-Württemberg, Saxony and Rhineland-Palatinate. With total assets of EUR 241 billion and around 10,000 employees (as of 31 Dec. 2018), LBBW is one of the largest banks in Germany.

LBBW became a founding member of Marco Polo in November 2018 and was the first member of the German S-Finanzgruppe to join the network.

Three Corner Model
Payment commitment financing facility is when the two trading parties (Dürr and Daimler) involved utilize the services of the same bank, which in this case is LBBW.

“We at Daimler AG, are fundamentally interested in new, digital business models improving process efficiency, which is very important to us. The benefits of the Marco Polo platform for Daimler AG are that we have one platform where banks, suppliers and customers can act directly with each other which should create full transparency and trust.”

- Jan Hofbauer, Daimler AG, Project Manager – Treasury Process Management
Case Study Details

Completed in September 2019, the three corner payment commitment model involving DAX and MDAX-listed companies, Daimler, Dürr and LBBW demonstrated the benefits of the Marco Polo payment commitment module in Germany.

A first for DAX and MDAX-listed companies, the pilot project involved the order and delivery of a balancing system from machine builder, Dürr (subsidiary Schenck) to automotive group, Daimler, with payment secured by a conditional payment commitment by LBBW completed over the Marco Polo Network, using Corda blockchain technology from R3.

Upon equipment delivery, the associated order’s fulfilment data was uploaded onto the distributed ledger and automatically reconciled with the previously agreed transaction data; which in turn triggered an irrevocable payment obligation.

The entire data flow was efficiently and transparently mapped on R3’s Corda platform with the underlying transaction completed in minutes instead of days. For the first time, the complete execution on the bank’s internal back-end systems was also successfully tested - an important step towards reaching full production maturity.

Click here to watch or visit: https://www.youtube.com/watch?v=xzOGkel5sE

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