**Michael:**

So I'm here with Parm Sangha, who's the European Head of Blockchain within IBM. Parm is going to be speaking at our Consortia 21 event in October 19th and 20th. That'll be taking place at Norton Rose Fulbright in London. And Parm's panel will be developing the business case for technology and platform investments. Parm, welcome to this session in the run up to our Consortia event. Parm, I just, initially, like to ask you, just for those people who are not that familiar with this sector, just give us a quick overview of how IBM are involved in the whole area of consortiums and blockchain and trade receivables finance.

**Parm:**

Thank you, Michael. And thank you for hosting us and having us for Consortia 21. Yes, so with IBM, with regards to, first of all, the trade receivables line of business within the banking division, IBM plays a role all the way from the back office through middle and to the front office with regards to how to help the institutions reduce the cost and the risk of processing those transactions through the workflows that span back middle and front office. We have engagements with clients where they're looking at, first of all, just digitising the paper processes when we're looking at the receivable side of the business, all the way from how do you KYC? How do you onboard? How do you issue LC products, how they do track the goods through the supply chain using e Bill of Lading, Certificates of Origin, documents in the transaction and in the supply chain through logistics and customs, such that the goods are delivered those people processes and the people involved. IBM has a track record of helping banks digitise the back office which is just digitising and scanning the documents in a much faster, efficient way, so they can be used throughout the workflow as you go through the middle and front. IBM also has the ability to then work in the middle office when those documents have been digitised of how to extract data from those documents, use them in the transaction with the right risk profiling to ensure that everybody says who are who they say they are, and then the goods are where they're supposed to be, to then make sure that then the risk is priced effectively in the LC products. And so we have examples of engagements with global banks in the middle office optimization. And then all the way to the front office is how now then do you take your transactions, your products, and not just provide them to your clients who then work further down into the supply chain of distribution and the goods moving around in the containers, but also how they do take your data and expose that via a platform to then interact with the supply chain outside of the four walls of the banks. So IBM has a pretty strong presence in the back, middle and front. We offer true digital transformation services across those four three sections. But more importantly, is how now do you create a platform as you go from the back middle of front. So you're not ripping up the road again, when looking at trying to follow the transactions and your customers as the world is evolving in the way that trade is being done today. So a fairly strong presence. And blockchain comes into augment the trusted movement of that data in those digitised workflows as those transactions occur. So we're a pretty strong presence and lots of references.

**Michael:**

And you know, a lot of people visualise blockchain as being, you know, very up to date technology, probably, you know, fast moving in terms of its development. Traditionally, banks are thought of very often as being quite slow in adopting new technologies and taking quite a long time to go through the process of deciding what technologies to use and then the whole implementation process. But how do you kind of square that circle? Because, you know, for example, Gartner in 2019, they predicted that 90% of enterprise blockchain projects would require replacement within 18 months due to the rapid ?? and highly fragmented blockchain platform market. How do you, first of all, have that come true? And how do you square that circle? You've got banks who've got, you know, often very old systems, legacy systems to deal with. And historically, we know that that's taken a long time to replace those kind of systems and change systems. And you've got this fast moving, very fast moving, rapidly development blockchain environment. How do you square those two positions?

**Parm:**

Yes Michael, I know it's a great observation - banks do want to move faster. So the business leaders do want to strengthen and expand those relationships with their clients and sell more products. In trying to sell more of those products, you then have to offer while you're offering those services, when you're in a regulated industries as banks are, it's the most regulated, I'd say, you then have all the controls, and the design, and the efficiencies of the control from an operational risk point of view from a regulatory requirement with, say, the Basel III/IV, then they're the control functions that actually slow down the banks adoption of new technology. So you have to go through not the easy part of the functional requirements, i.e. the happy flow of a transaction between clients to sell a product, but how then do you make that product available in a compliant low risk auditable fashion that aligns to the regulators in the country to the risk controls of the bank. So that's the challenge that the banks have. But the appetite there is to innovate. And we've seen a lot of innovation with banks, and they've looked at partnering with startups, they've looked at creating innovative functions within the bank's own four walls, to try and see how do we learn and understand the technology, to then see how we can apply it rapidly in the bank. Those activities are ongoing, we support the sandboxing of new tech, we then look at, maybe because of IBM's pedigree in putting systems into production in regulated industries, is how do you then take care of those non functional requirements to ensure that the banks can move as fast as they can, knowing that they're in regulated industries. So it's happening, and it's beginning to happen faster, because the good thing with blockchain is not only does it give you a business case to reduce cost, because of the whole distributed ledger and smart contract capabilities, and immutability within DLT, but also that same dollar then allows you to generate new revenue with regards to the network effect when you're working in a trusted environment with blockchain. So banks are trying to square it by being more aligned to the non functional as well as the functional. And that's where I think, where I've gotten, did call it right in as far as the rapid and fragmented implementation of blockchain systems in industry, because it was new. And we are seeing people using hyper ledger fabric, for example, or therium, or corder, or other derivatives or blockchain platforms. And everybody is still learning and understanding what is this technology and how best to apply it. So to the chaotic nature, I think that's just part and parcel of learning and understanding new tech. But certainly it has been rapid, it has been fragmented. But we are now seeing a pattern of convergence. And that convergence, we're seeing also highlighted with a study that IBM conducted 3000 C suite across 22 industries, 36 countries, where 70% said, we now are designing our platforms to work with others, outside of our own institution, by design. And therefore that movement of data has to be done in a trusted way; where 50% said, we don't trust that movement. And so we're finding that banks are squaring that... that squaring the circle or circling the square? squaring the circle by being a little bit more open in how they're looking at their platforms, and also the control functions with the blockchain technology by getting it into production. But then at the same time, yes, lots of learning through the rapid fragmented use, but there's patterns of convergence. That's for sure.

**Michael:**

Okay, so keep that in mind. So it sounds like there has been a lot of development going on, and the banks have been keeping pace. Going back to our first Consortia, which was two years ago, you know, briefly, what has happened? What are the major events and developments that have happened since then would you say, because, you know, we're expecting a lot to update people on and talk about Consortia in October?

**Parm:**

Yes. So since 2019, it was the early days of very much the blockchain technology within banking as a platform to generate new fee income for the banks using the low cost, low risk traits of distributed ledger technologies, really take a hold with we.trade. Back in 2019, we.trade was created by seven of Europe's largest banks. It was there to offer SMEs, working capital solutions in a much more of an affordable way, because they couldn't afford the LC products that typically will be offered by transaction banking division, the trade finance division within there, because they were not affordable because of the risk, and that risk had to be priced in. And that risk was there because of the profile of the SME. And therefore the visibility of the goods that have been distributed between the buyer and the seller, led to a $1.5 trillion trade finance gap. The seven banks came together and said, 'We've got a common problem. Yes, we compete. But let's collaborate to create a common platform to solve our risk challenges, create a new channel to actually offer those products to the SMEs.' And those seven banks, we.trade is now across Europe across 16 banks and growing with interest from institutions outside of Europe as well to establish trusted trade corridors, using the we.trade platform. We've seen other initiatives like Marco Polo. Moving forward, we've seen another initiatives like Contour moving forward with regards to vertical industry financial services, using blockchain as a platform service to grow market share and market size. Since then, what we've also seen is those vertical innovations are now beginning to talk to other networks and platforms in the form of horizontal innovation. And what I mean by that is, we've also got tradelens. Tradelens is a partnership between IBM and Maersk. It basically tracks the day in the life of a container. When it goes between the buyer and the seller, and all the associated digital documents that go with it like LC Certificate of Origin. That was created for transport and distribution. We.trade was created for trade finance. Now the two are beginning to talk to each other to say, 'Well, I've got trade finance here to meet, you've got logistics information here for cross border international trade, let's now share data across the two to create more opportunities for the parties participate in those networks to do more business.' And that's the beginnings of the network effect. So a big evolution from vertical to horizontal ??.

**Michael:**

And you mentioned that huge trade finance gap, particularly for SMEs 1.6 trillion was it?(Speaker 2) 1.5. And they say up to 3.5. (Speaker 1) Hmm, okay, I mean, historically, that trade finance gap has been extremely difficult to close. And I know banks and governments around the world have been working on this for decades and decades and decades. So this really could be an enormous game changer for the whole area financing SMEs globally. if things continue to develop and things work out the way that you're expecting them to with blockchain, and trade receivables finance.

**Parm:**

Yeah. Within trade and receivables finance, we.trade has shown that you can begin to address the trade finance gap. And that they're doing that today. They're offering products and solutions to SMEs that would not have been able to afford it before. That's good for the SME in as far as it can now grow its business, which is good for the country, for its GDP. It's good for the bank, because they're now growing their revenues with this costing pressures on the ratios. They're in more of a compliant, risk averse way, which also then keeps the regulator happy, because they don't want to see another 2008-2009 crash. So these are the first signs of the fact that blockchain can not only reduce cost of risk, but it can also then allow you to grow new revenue for the banks participating. But more importantly, as I said, it then allows the banks to talk to other regions and other ecosystem players like logistics, like customs, to make the the process even more efficient. And the more you take out, the more likelihood of trade, and therefore you raise the tide on trade growth around the world, which is where the ICC obviously with the DSI initiative is working also.

**Michael:**

Yeah, I just wanted to ask you about the GSI initiative and where things stand with that, because that was a big issue that came up two years ago at the first Consortia. And you've mentioned that, you know, these groups are beginning to merge not merged, but but talk to each other in a more efficient way. Has that DSI initiative worked well, and are we going to see standardisation across the board in terms of the various blockchain initiatives that are out there, and in terms of the way they communicate to each other? Are we heading in the right direction for that?

**Parm:**

We're beginning, I'd say, to head in that right direction. As Gartner said, it's been chaotic; it's been fragmented. Everybody's made investments. And we have to recognise every institution, whether you are bank, logistics, customs, governments, have all made investments in their platforms as they try and digitise to be more efficient to connect with each other. The ICC, from a trade, finance and policy's point of view, last century has been doing a fantastic job by getting countries together to establish rules by which people can trade. Governments have been interacting with regards to quotas and tariffs, the World Trade Organization has been working to say, well, the other costs of trading ie the processing of the paperwork, how do we make that more efficient? Then the DSI initiative is playing very well in providing guidelines and standards that are there to adopt. Its role of advocacy is critical by which to provide guidance to industry with regulatory input for governments to then grow business. It only goes so far. As John Denton, Secretary General of the ICC, has said, the digitization of trade, even though the ICC is advocating, the adoption has been less than 0.5%. So the digitization of global trade is at less than 0.5%. How come? There're all sorts of reasons, many sorts of situations where different countries or different levels of digitization, different technologies and digital veracity are recognised in different ways from a legal perspective. Governments take a different views as to how they want to interact with other countries when it comes to trade and the systems and the processes.

**Michael:**

Do you see that adoption process accelerating in the coming years?

**Parm:**

Yeah. Also Cola ?? at the DSI MD for the initiative is really pushing and raising the tide on the policies and the standards for advocacy. And we are now also working with the IC then to look at how do you then drive adoption in an equitable, inclusive and an open governance way? So there is a natural incentive for governments, regulators, legal bodies, industries and industry associations to say, 'Yeah, there's the North Star for trade. Yes, we've got the guidelines from DSI. Now how do we adopt and implement?' And that certainly is coming along. The appetite to do this is there. Michael ??? whom you might know from the banking commission and also from Standard Chartered, always said we're going to get into the danger of digital islands. People are beginning to realise, yes. What they do for their own associations from an industry body point of view is good for them. But does it connect the rest of the supply chain? People begin to realise they have to be more open? ???

**Michael:**

Okay. Just quickly, Parm, as we're running out a bit of time here. Permissionless blockchain networks versus private blockchain networks - what are we seeing here in terms of trade receivables finance and consortiums? What's developing there is private or permissionless?

**Parm:**

So from a trade receivables point of view, again, looking at the product that's sold, which goes through a workflow and a business process, where you're moving data between one party and the other. That whole process of digitising the people process the paperwork is happening. And it happens within the four walls of the organisation before they share the data with the next party that's involved in the supply chain. What we're finding is that with blockchain in regulated industries, you have to respect the data, its privacy and its residency. Hence, the first wave of projects are all on a private permissioned basis, because those are the ones that can get into production at scale, which then pass the internal audit and control checks from an operational risk point of view. So we've seen a rise in private and permissioned. However, as we said before, with the ICC initiative for adoption, and to raise the tide of digitization, you have to make then the platform's more inclusive, and easy to onboard. And that's where the permissionless open capabilities in the marketplace are also gaining traction working from the outside in, whereas the banks are working from the inside out. The two will meet. The two will need to coexist. We have initiatives where we are exchanging data between the two sets up - one trusted talking to another trusted in a open permissionless environment and sharing data though in a trusted way is there so the technology is there to fix the gaps.

**Michael:**

Are there any particular challenges when moving to an open DLT position?

**Parm:**

Just purely from a governance point of view on the data, as long as the data can be respected from a privacy and a residency point of view, then the two can coexist. And actually, the two will have to coexist because you need, although distributed ledger is distributed, you always do need some sort of adult in the room, which sort of makes it centralised. But you need to have the openness and the permissionless at the edge. So I think the two will come together. Data has been moved in the right way, so it's compliant with controls. It's going to be a mix of a hybrid environment, I'd say Michael.

**Michael:**

And finally Parm, do you see any sort of best practices emerging within blockchain in the trade receivables finance, particularly receivables finance and any particular patterns or trends?

**Parm:**

Yeah, the patterns in as far as that we're seeing is optimise. Trade receivable divisions are digitising and optimising themselves. And they're using AI, artificial intelligence, machine learning, hybrid cloud infrastructures, so that their internal processes are as efficient as they possibly can be. So they can then have a much more cost effective relationship with their clients. That's happening. What we're also seeing as a pattern is that we are seeing then those workflows from a trade receivables using also external providers of service. So for example, Contour does a very good service with regards to the LC process like we.trade does for open accounts. And people are beginning to plug into those, that how do you then plug your internal service to an external service and retain data residency and privacy in a blockchain enabled world. That's where some of the challenges are. And the patterns that we're seeing is that if you build in by design, your optimizations within the bank sets their design, then to open up and go beyond the bank with the larger ecosystem, then we're seeing that you don't have to dig up the road twice with regards to investments, and that the business case is stronger, because before the business case was on the likelihood of blockchain success. Now, the businesses cases are on the hard numbers on the return of the outcome for the bank. So if you build in by design platforms, cloud and moving data in a trusted way, then there the pattern is seen as we go from back middle and front office, I'd say Michael.

**Michael:**

Great. Thank you. Thank you very much indeed. Just remind everybody, Parm will be speaking at our event Consortia 21, which will be in London on the 19th and 20th of October at Norton Rose Fulbright. And you can sign up to that event at the BCR website. Parm, we look forward to hearing more from you at that event in October. Thanks very much indeed.

**Parm:**

Thank you very much, Michael. Looking forward to the event.