

# MarcoPolo<sup>®</sup>



**MarcoPolo<sup>®</sup>**  
**Payment Commitment**  
**Product Description**

## Executive Summary

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Payment Commitment solutions in trade finance such as Letters of Credit (LCs) and Bank Payment Obligations (BPOs) have historically provided effective risk mitigation for trading parties through bank facilitation in the trade finance process. However, these activities are declining for cross-border trade transactions due to their associated high costs, manual activities, contractual delays and process complexities.

International trade is heavily reliant on paper documents and lacks any explicit support for a digital version of the payment obligation. In addition, the same set of data is replicated multiple times between transaction parties because each party keeps instrument data in their own trade and general ledger systems. Communication between parties involved in a trade transaction is conducted via SWIFT messages, emails and paper documents to process lifecycle events (issue, amend, verify, pay).

This situation creates time lags and opportunities for data to suffer from inconsistencies or become subjected to fraud. Such inefficiencies result in high costs of LCs issuances and manual checking of documents. In addition, the low adoption rate of BPO has made it less attractive for financial institutions and their corporate clients, especially for low-value transactions.

The Marco Polo Network is offering an efficient, highly automated Payment Commitment solution to its members leveraging blockchain technology and deploying an open, distributed platform among the different participants. Marco Polo's Payment Commitment solution facilitates companies to interact digitally with respect to trade obligation instruments. Marco Polo's Payment Commitment allows trading companies to exchange, verify and automatically match trade data to obtain digital payment obligations.

The network consensus mechanism across the trade finance continuum ensures there is only one single version of the truth based on digitized trade finance data at any given time. By automating the matching process between purchase order, invoice, shipment and other trade data, Marco Polo's Payment Commitment solution ensures faster assured payments. It also provides the opportunity to enhance the data with other trade related data feeds allowing parties to gain visibility and reduce potential discrepancies that arise from ambiguities in payment contract terms and conditions.

## Definition - Payment Commitment

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Payment Commitment is a trade finance instrument used to secure payments against the successful matching of trade data. Payment Commitment is an irrevocable and independent undertaking of an obligor (buyer/importer) or its bank to pay or incur a deferred payment obligation and pay at maturity a specified amount to a recipient (seller/exporter) bank following submission of data sets required by the respective parties resulting in a successful data match.

### Distinctive features

The Payment Commitment module combines some of the features of a Documentary Credit but with the intention to meet the needs of open account trade transactions. As a conditional payment mechanism, it may be issued to make sight payments or deferred payments, based on the irrevocable undertaking of the obligor bank towards the recipient bank. The matching of trade data on the Marco Polo Platform triggers this irrevocable undertaking.

Payment Commitment is similar in structure as the Bank Payment Obligation (BPO), however it is not based on the Trade Services Utility (TSU), the SWIFT-proprietary data standard and the Transaction Matching Application (TMA).

Payment Commitment is based on open data standards, a distributed Marco Polo Platform and underlying blockchain technology.

### Parties

The Payment Commitment module can use a 3-corner and 4-corner model depending on the payment issued by the buyer's / obligor's bank or directly to the supplier or supplier's bank in favour of the supplier.

The role of banks in providing Payment Commitment solutions and cooperating with each other as partners or correspondent banks between each other offers a number of benefits.

Each bank is fully versed in the circumstances of their respective clients (including KYC procedures) and typically apply appropriate credit facilities for their customers to support the specific obligations created by the Payment Commitment. It also allows the buyer to pay in one currency and the supplier getting paid by his bank in his local currency.

Their presence in different geographic territories, market knowledge, and mutual agreements provide a framework for the execution of trade transactions and related financing on a global basis in both developed and emerging markets.

**Together**  
**we are making Trade Finance**  
**more transparent, smarter and better connected**

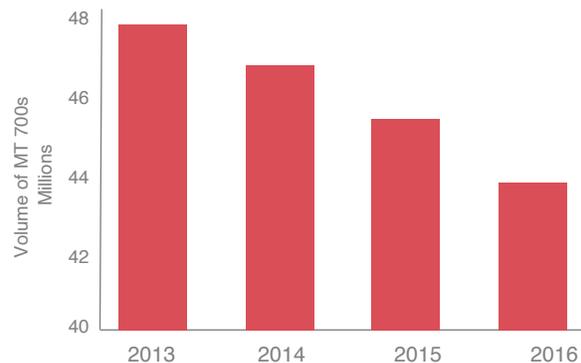
# Existing Solutions

## Letter of Credits (LCs)

Because trade finance transactions based on LCs are processed on the basis of paper-based trade documents and not on digital data, errors and interpretation issues often lead to disputes between trading parties.

- The handling of paper-based documents means time-consuming formalities leading to added costs.
- Payment delays can occur due to manual checking of documents and document mismatches.
- Payment disputes can occur between parties due to ambiguities on the LCs documents.
- High process overheads make LCs unprofitable for small transactions or those involving time-sensitive or perishable goods.

As a result, LCs based trade finance transactions have declined over the last number of years.



Source: "Rethinking Trade & Finance," ICC, 2017.

**60% and 70% of documents presented for LC evaluation are rejected on the first presentation due to discrepancies.** Source: ICC

**7 – 10 days average time for LC issuance.** Source: LetterofCredit.biz

**BPO doesn't make economic sense for small banks to pay €12,000 to handle half a dozen transactions a year with that one supplier. The unit cost is phenomenal.**

Michael Quinn, managing director of global trade and loan products at JP Morgan and member of the BPO.

## Bank Payment Obligation (BPO)

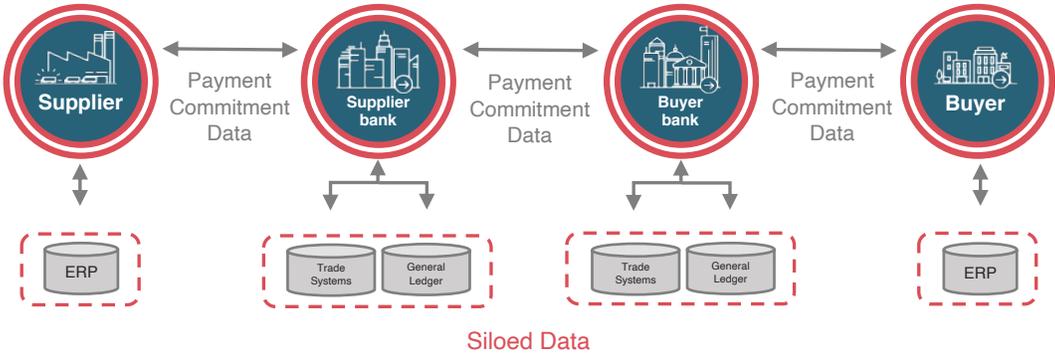
Despite the introduction of BPO in 2013 as well as the solution championed by SWIFT and the International Chamber of Commerce (ICC), the volume of completed BPO transactions still remains low. In addition, SWIFT has decided to stop offering this solution in 2020.<sup>1</sup>

- BPO is not technology-agnostic. It requires using the closed electronic messaging and matching capabilities through SWIFT's trade services utility (TSU).
- Very few banks and corporates are using BPO, which makes finding a counterparty bank.
- Another barrier is SWIFT's pricing model, which made it very difficult for peripheral banks to join BPO.
- As a closed system, it makes it difficult to enhance the data transparency with data feeds from the physical supply chain such as logistics providers or port authorities.

Source: GTRReview, Exclusive: Swift calls time on TSU, 2019

# Current Solution Challenges

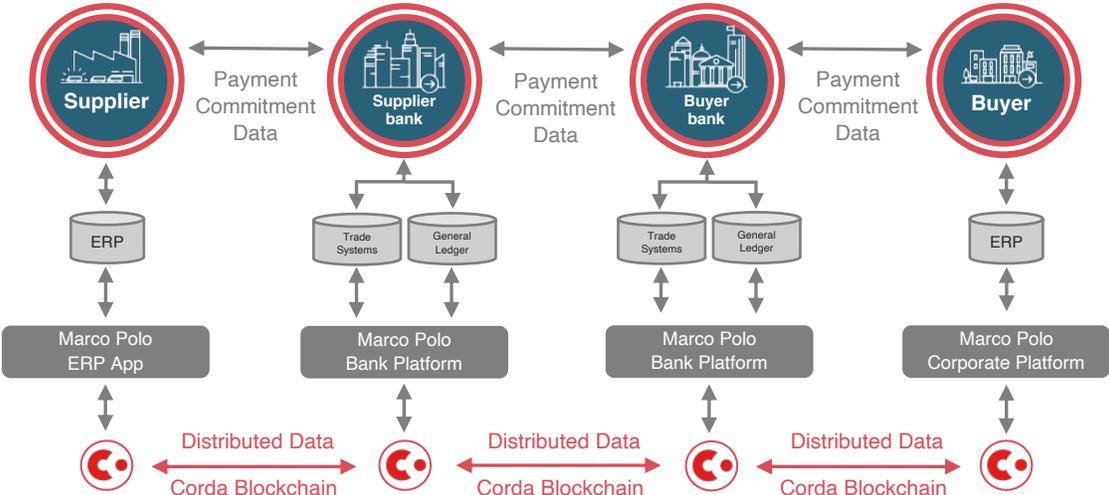
In trade finance today, the same set of data is replicated multiple times between transaction parties because each party keeps data in their own trade and general ledger systems. Communication between parties involved in a trade transaction is conducted via SWIFT messages, emails and paper documents to process lifecycle events, i.e., issue, amend, exam and pay. This situation creates time lags and opportunities for data to become inconsistent with potential errors and delays.



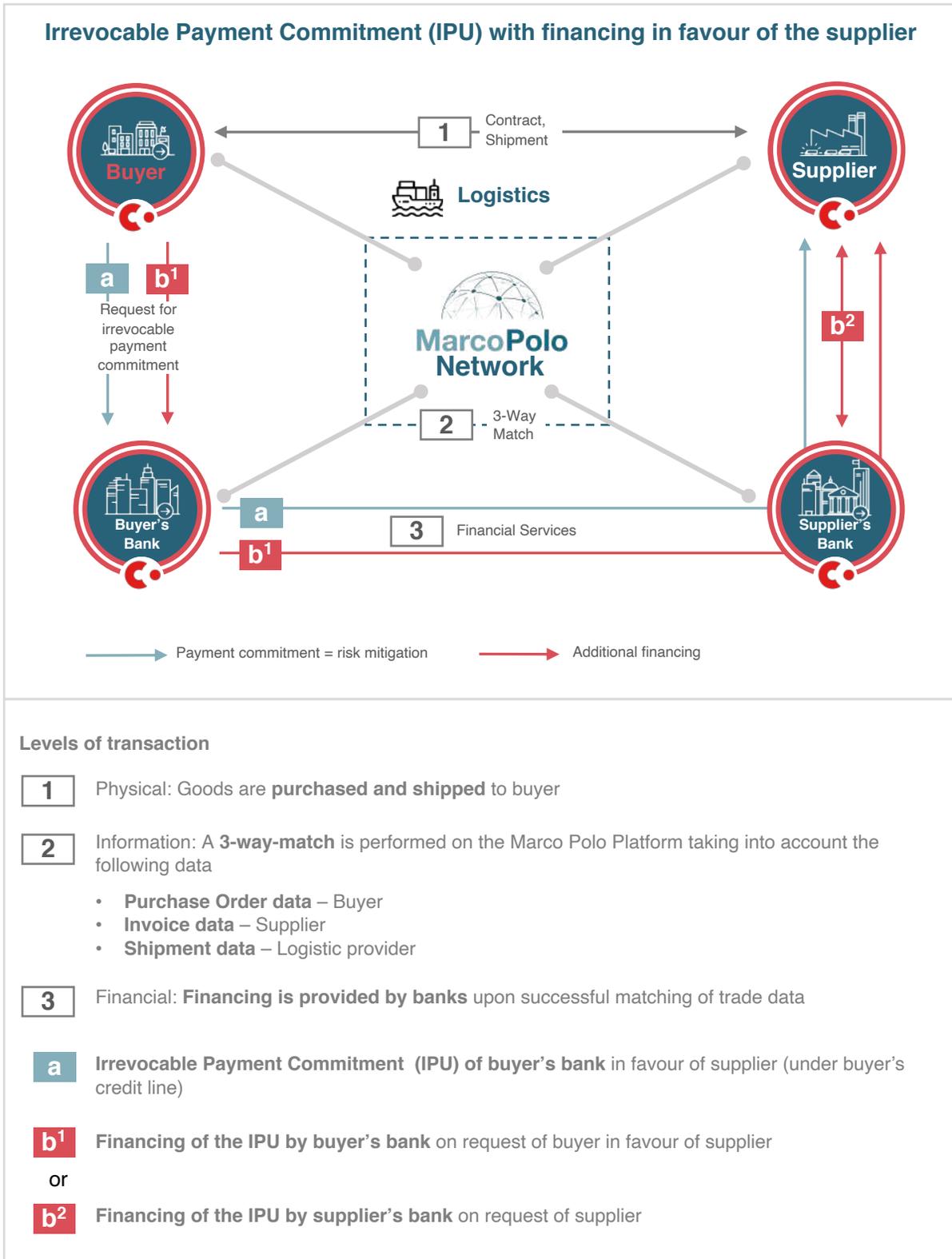
# Marco Polo Process

In addition to each party's internal data silo, a single source of trusted data is shared to which all the permissioned parties may have access. It reflects the real-time state of that trade instrument, terms, payment commitments and lifecycle activities. Marco Polo's Payment Commitment solution provides all parties with the confidence to transact digitally and in real-time. The Marco Polo Platform enables users to create and manage workflows, rules, business logic to automate the matching of purchase orders, invoices and other trade finance relevant processes.

Corda Blockchain Technology from R3 provides the capability to realize this solution. Corda provides a trusted source of data visibility to all authorized parties, one common view of the trade instrument's terms, payment commitments, lifecycle events and support for real-time processing between the transaction parties.



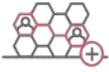
# Transaction Flow



# Payment Commitment by Marco Polo

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The Payment Commitment solution offered on the Marco Polo Network eliminates the challenges faced by current solutions and makes a real-time, more secure, cheaper, easier, and a more efficient way for trading partners and financial institutions to transact.



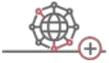
The Payment Commitment leverages blockchain technology from R3 ensuring faster assured payments by preventing disputes arising from contract ambiguities, through early discovery of discrepancies and automated matching of trade data.



The consensus mechanism within the Marco Polo Network ensures there is only one single final version of the underlying trade and finance data at any given time and that all parties are able to view and work on this version based on their access rights.



The whole process is based on digitized workflows replacing paper-based trade documents substantially reducing time and cost.



The Marco Polo Network is fully open, giving access to any financial institution and their corporate clients as well as B2B networks and other constituents of the wider trade ecosystem.



Option to access the Marco Polo Network via ERP-embedded App (available in the near future).



The Payment Commitment solution has been tested successfully by Sumitomo Banks and their corporate client Mitsui Corp as well as Commerzbank, LBBW and their clients Voith and KSB.

## **Founding Mandate from Marco Polo Members**

*"We want to better serve trade customers' needs by converging the physical, information and financial supply chains with an optimized use of digital trade data to enable easier access to credit, enhanced risk mitigation, increased transparency and automation on a global digital platform."*

*Marco Polo Member Banks*

# The Marco Polo Network

The Marco Polo Network is one of the fastest growing trade and working capital finance networks in the world. It is a joint undertaking with technology firm TradeIX, working with enterprise software firm R3, the world's leading financial institutions and their corporate clients. The Marco Polo Network also includes constituents of the wider trade ecosystem such as Enterprise Resource Planning (ERP) providers and logistics companies.

Launched in 2017, Marco Polo is a network of platforms focusing on trade and working capital finance solutions and built on an interoperable business network powered by open Application Programming Interfaces (APIs) and blockchain technology.

Selection of active members as of March 2020



## Key Objectives

The main objectives of the Marco Polo Network for financial institutions are to reduce operational costs and risks associated to international trade and working capital management. The third objective is to increase revenue opportunities by connecting efficiently with their corporate clients and getting access to real-time trade data.

The main objectives of Marco Polo Network for corporates are to reduce administrative costs and risks in using trade and working capital finance solutions. Other objectives include having a single access channel to connect to existing and new financial institutions with a wider range of funding opportunities.

**Marco Polo connects members to one of the fastest growing Global Trade Finance Networks in the world.**





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[www.marcopolo.finance](http://www.marcopolo.finance)