



ELECTRONIC BILLS OF LADING: WILL THEY BE THE GAME-CHANGER AS EXPECTED?

Context

The UK Electronic Trade Documents Act (The Act) was passed in September 2023, and it promises to create some foundational changes in the way banks and all parties will handle Trade Finance transactions in the future.

Digitization of trade documents is not new, but the new development creates a legal framework for parties to operate under and potentially do away with old inefficiencies that have inherently existed in the trade processes. Besides this, there is a large 'Green Impact' – it is estimated that over [45 million bills of lading that get issued / processed annually, are all in paper form](#). Successful digitization of these can perhaps create one of the biggest 'Green Initiatives' within the international trade industry. As a result of all of this, the new developments have injected a buzz in the industry which is expected to attract significant new investments.

What is the UK Electronic Trade Documents Act (The Act), and why is it important?

The [UK Electronic Trade Documents Act \(The Act\)](#) basically accords the same legal status to certain key digital documents (bill of lading) as physical documents if they meet a certain prescribed criteria.

As per the International Chamber of Commerce (ICC), benefits to digitization of commercial trade documents are immense to the industry. Besides an estimated [\\$9 trillion in trade growth across G7 including \\$6 trillion in the SME sector alone](#), almost 80% reduction in trade transaction costs and reduction in cross border compliance processing time from 25 days to 1 day can be expected. As a result of these clear benefits, both on the business as well as the cost side, these developments were much awaited in the industry, which promises to create a flurry of activity.

Historically in Trade Finance, only “paper documents” have been deemed to be “possessable”. In other words, anybody who possessed a paper document alone would be entitled to claim performance of the obligations as per the document, including the right to delivery of the goods under a bill of lading. The fundamental objective of Trade Finance is for the seller to grant legal ownership of goods to the buyer or other intermediaries on payments or fulfilling certain conditions. And since paper documents were central to the process, it created a level of inefficiency as well as dependency on speed of transfer of physical documents. Now with that limitation gone, it accelerates the processes to a large extent. Under the act, an electronic document can be endorsed and transferred the same way as a physical document, and that would carry the same rights and obligations in the eyes of the law as in case of physical documents. In addition, by being completely electronic in nature, it reduces the potential for errors, fraud and cases of double financing. In general, it creates a much higher level of transparency in the process from start to end.

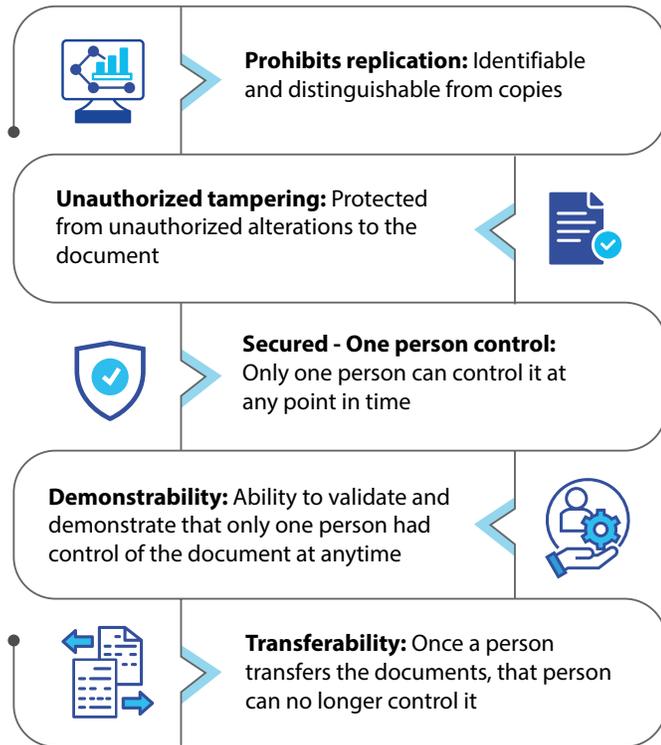
What types of documents are covered by The Act?

The Act does not cover an exhaustive list, but it covers all documents in trade that confer ownership of goods or are required for financing such trade. Examples of such documents are bills of lading, bills of exchange, promissory notes, warehouse receipts, mate's receipt marine insurance policies, and cargo insurance policies.



What is the security? What constitutes a legal document?

The Act defines what it calls a “reliable system” used to produce a document. It stays away from actually specifying what type of system, characteristics, or technology such as blockchain. But for a document to be legal, a reliable system is intended to have, at a minimum, the following five capabilities:



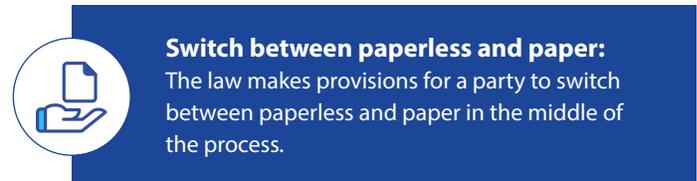
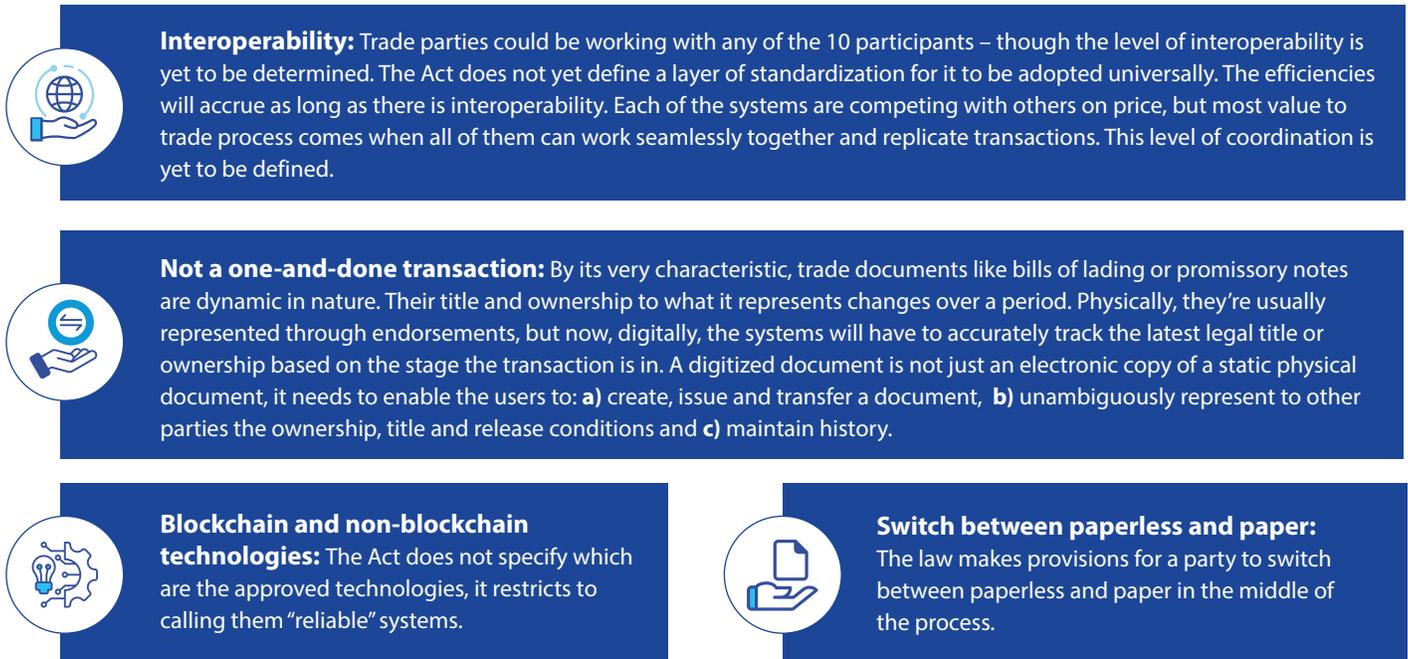
For a document to be identified as produced by a “reliable system”, users will have to validate that the system was a “reliable system” when the document was used and continues to be so at the time of its usage. In a broader perspective, this aspect will have a large impact on existing trade applications and processes used by banks.

Who will monitor and account for these documents?

Electronic bills of lading and other electronic documents will be monitored and maintained by a select group of companies (systems) that are explicitly approved for that purpose by the International Group of P&I club (the central marine insurance body). The club has so far approved about 10 electronic bills of lading systems for use by its members and is expected to approve more in light of the recent Act. Some of these companies use blockchain technology and have embedded smart contract features.

Members (i.e. trade parties who need to act on documents viz. banks, carriers, importers, exporters, insurance companies) need to enter into a contract with the system operators for use of their system and sign up to the contract terms around integrations, IT standards, functionality and integration.

What are the challenges? What issues remain unresolved?



What does it mean for banks?



Process changes

Though some banks have been working with electronic documents in recent times, it's still largely on an exceptional basis. Banks will have to identify new processes – not just internal operational processes but customer service and legal documentation for incorporating the use of electronic documents. The current process for most banks is based on paper-based processing and this would need to be revamped.



Technology changes

Banks will need to enhance their systems to accept digital documents in the process and integrate to push / pull data directly from system providers by integrating with blockchain and non-blockchain technologies. What is also critical is the orchestration between the electronic bill of lading systems and the trade applications to establish security of documents, ensuring factors that constitute a “reliable system” as per the law are not compromised at every step on an ongoing basis. Some of this will cause a large change in the current process.



Change from paperless to paper

To make it more complex, the law allows parties to switch between paper and paperless documents. So, at any point in time, the system should be able to make the switch, pulling digital documents in paper form with the appropriate status and notations. This would constitute an adaptability on part of the systems to move freely between paper and paperless, even halfway through the process. Though the core trade transactions remain the same, this would create a need for a higher agility in current environments.

Electronic bills of lading: The overdue game-changer

It is clear that this development around electronic bills of lading was overdue and the advantages far outweigh the risks or issues. It is also important to note that the passage of the law is not only an important, but also a foundational step. Not all details and impact areas are yet clear. The law is silent on a number of issues around what exactly constitutes a “reliable system”, and banks or carriers have responsibility in ascertaining that a “reliable system” was used. We expect some of these issues to get clarified in 2024, but as of now, there are areas open for interpretation.

Regardless, this perhaps will end up being one of the biggest changes in the world of trade finance in the last decade, and it is a good example of the law keeping pace with technology to transform an outdated process.

How can Infosys help?

Infosys has partnered with over 150 banks globally, supporting their trade business. Through our products and service business lines, Infosys brings over four decades of experience in managing modern trade processes.

Infosys recommends a 3-step approach for banks to undertake the transition.

Step 1

Discovery and design: Identify impact points

Map current processes to identify impact points across all areas.

The changes will have an impact across multiple areas, from operations to transaction processing, to client services and legal & onboarding.

Step 2

Optimize impact points: Gateway approach

Evaluate the process, then accommodate for external interactions with other systems (gateway approach).

Normalize data from external electronic document systems and create a consistent approach for accessing latest electronic documents or a repository for use across applications.

Step 3

Build alignment

Application enhancement to accommodate the new process.

Enhance applications to consume electronic data as part of the new process.

Our teams can assist banks in defining a roadmap for this transition – from strategy, design and process change to actual application enhancements and delivery. Please contact Rahul Wadhavkar for more information.

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Puneet is the executive sponsor for Global Commercial Banking COE and has partnered with CXOs in multiple industry transformations. He is helping clients navigate the world of fintechs, big tech and ecosystem banking. Puneet is also an avid champion of emerging technologies and has led the adoption of Digital, Cloud and is now enabling AI in the FS industry.



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Rahul heads the Global Commercial Banking practice for Infosys. He is a seasoned banking professional with more than 20 years of experience in product management and technology for US and European banks. Over the course of his career, he has been involved in successfully leading several transformational programs in the wholesale banking space around payments, credit and operational risk management.

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