Trade Finance Project CALL Memo: 20240613

Recorded by Hisanao Sugamata

Meeting Date & Time: 7:00 – 8:00 UTC on 13June2024

Meeting Location: Online

Participants:

Hisanao Sugamata

Daizo Kiyotomo

Tom Shinya

Hiroko Niho

1. Cargo Insurance model review

* We have got editorial comments for the BRS draft from Todd Frazier. Those comments are accepted and the BRS will be edited according to the comments.
* We discussed the issues raised at the previous meeting using CargoInsurance\_ Model\_20240613 (Attached).
* What is a trade finance?

We agreed the definition of a trade finance described in CargoInsurance\_ Model\_20240613. This definition may be described in the BRS for the trade finance facilitation reference data model.

* Trade finance positioning

We agreed the scope and the positioning described in CargoInsurance\_ Model\_20240613.

* Multiple consignments for an insurance policy

We agreed that it is possible to insure multiple consignments in one shipment which is using the same transport movement.

* Treating a bulk cargo in this BRS

We agreed to cover a bulk cargo for the insurance in this BRS.

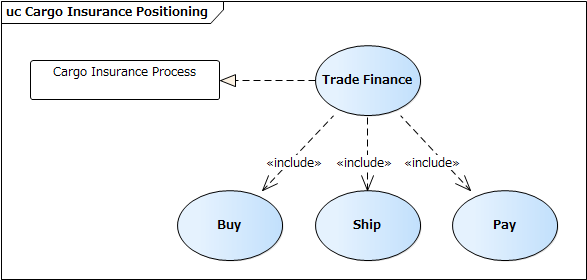
1. Next step

Hisanao will prepare the revised BRS draft by the next call on 27th of June.

(Attachment: CargoInsurance\_ Model\_20240613)

Scope

The cargo insurance is a type of insurance that protects goods or merchandise during transit against loss or damage. In the context of trade, where goods are often transported across long distances by various modes of transportation such as ships, airplanes, trucks or trains, cargo insurance plays a role in mitigating the risks associated with trade transactions (Buy-Ship-Pay).

The cargo insurance process which is included in trade transactions plays one of the trade finance roles.

**Figure 1. Positioning the Insurance Process in the BUY-SHIP-PAY Model.**

**Trade Finance:**

Trade finance refers to the financial instruments and products that are used by companies to facilitate international trade and commerce. It encompasses a range of financial products that help businesses to manage the risks and liquidity involved in importing and exporting goods and services. The main objective of trade finance is to introduce a third-party to transactions to remove the payment risk and the supply risk (the physical risk of consignment). This can also provide the exporter with receivables or payment according to the agreement, while the importer might be extended credit to fulfill the trade order.

There are key components of a trade finance as follows.

1. Documentary Credit: A documentary credit is a document from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make a payment on the purchase, the bank will cover the full or remaining amount of the purchase. A documentary credit is also called Letter of Credit (LC).

2. Bills of Exchange: A bill of exchange is a written order used primarily in international trade that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date.

3. Factoring: This involves a company selling its invoices to a third party (a factor) at a discount. The factor then collects the payments from the debtors.

4. Supply Chain Finance: This is a set of technology-based business and financing processes that link the various parties in a transaction — the buyer, the seller, and the financing institution — to lower financing costs and improve business efficiency.

5. Cargo Insurance: Cargo insurance is a type of insurance designed to protect the value of goods and merchandise while they are in transit. This can include transportation by land, sea, or air. The primary purpose of cargo insurance is to provide financial protection against potential risks and losses that can occur during the shipping process.

