

Case Study Proposal: Simplifying Standby Letters of Credit and Guarantees Using Blockchain at The National Bank of Canada

What Is It

Standby Letters of Credit (SLOC) are legal documents aimed to backup commercial operations between two parties by ensuring that the seller is going to be paid, and the buyer is going to receive the goods or services stipulated in the contract. This kind of financial instrument is mostly used in international commercial operations with different languages, laws, and customs, where a bank acts as a supporter of the transactions and guarantees a bank's commitment of payment to a seller if the buyer defaults on the agreement.

Why This Matters

Nowadays, SLOCs are conducted via email, often leading to errors, delays, and poor transparency. Due to the importance of SLOCs, especially for international commercial operations, the National Bank of Canada decided to leverage smart contracts to replace current email-based procedures in partnership with IT and business consulting services firm CGI and blockchain startup Skuchain.

Why This May be Interesting

Issuing a SLOC is a complex process, in particular for international commercial operations where the seller and the buyer may not know each other, and the bank acts as a trustworthy entity that is backing-up the operation.

The process can take weeks or even months to be completed since the process is similar to issuing a loan where the bank issues the SLOC only after appraising the creditworthiness of the applicant.

Using blockchain technology, the National Bank of Canada wants to improve processing times, reduce risks, and help strengthen the bank's customer relationships by offering a simple, fast, and efficient experience to commercial clients. The bank wants to facilitate managing customers' business and the legal jargon by leveraging smart contracts templates pre-approved by banks and negotiations on a distributed ledger, where the integrated platform automates the coordination necessary to issue a standby letter of credit or guarantee.

Things to Keep in Mind for a Case Study

- What standby letters of credit are and how banks issue them.
- International operations volume of the National Bank of Canada.
- Importance of standby letters of credit to commercial operations.

- Pros and cons of standby letters of credits.
- Legality of commercial operations using blockchain in Canada.

Resources

- Standby Letter of Credit (SLOC)
- National Bank of Canada and CGI pilot blockchain for trade finance
- National Bank of Canada Pilots Blockchain to Combat “Complex” Processes
- CGI and National Bank of Canada pilot a blockchain guarantee and standby negotiation platform
- National Bank of Canada Trials Blockchain Platform for Trade Finance
- National Bank of Canada (NBC), to Adopt Blockchain Technology
- Digital currency, Financial Consumer Agency of Canada
- Canadian Blockchain Census 2019
- Canada: Legal Considerations Of Blockchain Technology

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