What has changed in the last ten years

by **Jacob Katsman**

Katsman: "The next ten years should certainly be interesting"

Ten years is a long period of time in our fast-paced Blackberry world of instant gratification and the ability to reach anyone in the world in a few clicks. Most of us are now connected in a wireless matrix, and we expect that the party with whom we are communicating can open a PDF attachment, a Word file and copy an Outlook contact directly into his or her electronic data base. Even the traditional paper-based world of trade finance has changed, although the claims that the letter of credit is dead or will soon be dead have not materialized and, in my opinion, will not materialize in the next ten years.

What did change can be summarized in four points:

1. The Internet has become a standard communication channel between banks and their corporate clients.
2. Proprietary bank platforms for electronic trade became a commodity that offered little differentiation between banks.
3. Multi-bank platforms entered the market and now offer real solutions for large corporates that are serviced by several banks.
4. SWIFT has expanded its services and now offers corporates connections to multiple banks through the SWIFT network.

In the early 2000s, banks realized they could obtain operational efficiency if they offered clients the capability to communicate with them via a web-based bank portal. Banks generally provide this electronic capability at no cost to encourage clients to deal with them exclusively and to cut their own costs by moving away from paper processing. Typical functionality has included opening an import letter of credit and sending amendments by filling out a web form, and receiving information from the bank about incoming export letters of credit. Integrated software solutions placed this information directly into the bank's back-office system, while simpler solutions just gathered the information, which a bank's staff member then had to manually enter into the back office. The functionality offered by some software vendors also included the handling of bank guarantees and export and import documentary collections, as well as providing for basic document preparation under export documentary credits.

Small- and mid-sized corporate clients banking with one or two banks adopted these solutions quickly, since the software offered them instant information about the status of their transaction and limited reporting capability. By contrast, large corporates dealing with three or more banks have found little value in these solutions, because the operational need to remember several user names and passwords, manual aggregation of information from multiple banks and the need to log into several banks' web portals made proprietary bank solutions counterproductive.

"Multi-bank platforms now offer real solutions"

Multi-bank trade solutions

Software vendors such as Bolero, DOS, and our own GlobalTrade Corporation (GTC) realized that there is a market need to develop multi-bank trade solutions, allowing a corporate treasury to offer a portal to its banks and business units so that they could collaborate on trade finance instruments. Companies including Daimler, EADS, and Glencore were the first movers to adopt multi-bank platforms. HypoVereinsbank, now part of UniCredit Group, was the first bank in Europe to realize that not all corporates could be served with a proprietary bank platform. In 2003, it started to offer hosted multi-bank solutions for trade. Wolfgang Friedinger, Head of Trade Products & Services of UniCredit, said: "We realized that many of our large trade finance clients deal with ten or more banks for documentary and guarantee business. We wanted to offer them technology solutions supporting and enhancing their own processes to really benefit them and thereby enhance our bank's relationship."

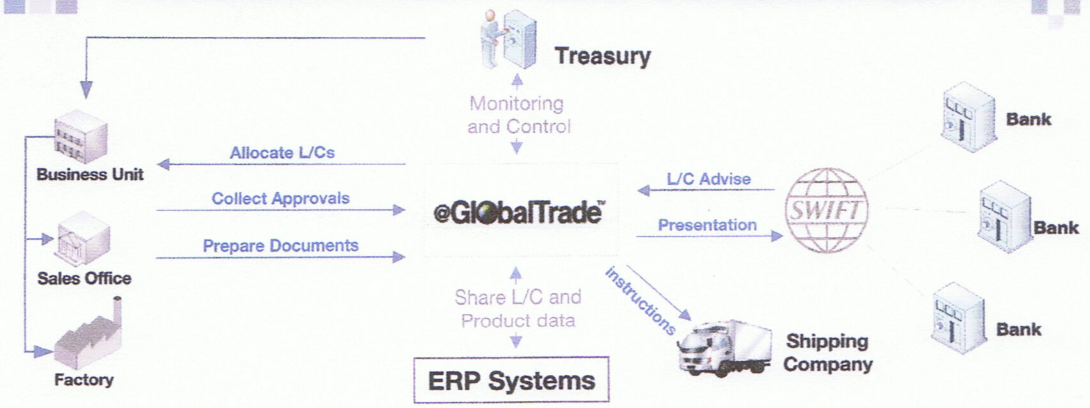
Not all banks saw it that way. Some, especially in North America, felt multi-bank offerings levelled the playing field and competed with their proprietary offerings. After spending millions of dollars on their own front-end trade systems, they felt it would be difficult to justify approaching senior management with requests for budgets to invest in yet another system. But experienced bankers realized that one size does not fit all. For some clients a proprietary bank system would work perfectly, while others would never use it and would continue to communicate with the bank using fax, telex or e-mail, if allowed.

Penetrating the market

By 2005, bank proprietary web portals had become a commodity. All the major banks had one. If a bank did not, it lost business and was not considered a serious partner in trade. But in 2006, multi-bank trade solutions started to penetrate the market. Two more software vendors got into the game, and three Belgian banks got together and studied three main multi-bank offerings for more than two years. They did so because they realized they didn't want to integrate several software solutions into their respective back office systems. The reality was that if a corporate client were to select a multi-bank application provider different from the one that a bank was prepared to support, the bank had to choose whether it wanted this corporate's business enough to support another technology channel.

At the end of 2008, in an effort to help banks standardize multi-bank corporate communications, SWIFT, in a corporate-to-bank and bank-to-corporate environment, launched corporate trade messages reusing the Category 7 messages that supported the processing of documentary credits and guarantees. This

Benefits of SWIFT and @GlobalTrade



- Structured L/C data is used for automatic routing of L/Cs to business units
- L/C approvals follow standard process and are collected 24x7
- Quicker discrepancy-free document preparation using L/C data which is:
  - mapped into documents
  - transferred to ERP for invoice and PO generation
  - relayed to third party service providers such as a Shipping Company
  - send electronic documents to bank for pre-checking and/or presentation
- Treasury maintains full real-time visibility into complete Export L/C process

year, GTC's @GlobalTrade systems for handling import letters of credit, export letters of credit and bank guarantees have been enabled to provide connectivity to multiple banks through the SWIFT network; @GlobalTrade SWIFT Connector, in combination with SWIFT Alliance Lite AutoClient, now allows corporates to exchange trade messages with all of its banks.

@GlobalTrade systems support centralized and de-centralized trade finance operations linking corporate head office/treasury with business units. A corporate can use the system's SWIFT connectivity as a single secure communication channel providing the whole organization with access to multiple banks. The system provides functions to track and report on outstanding credit facilities, transaction workflow and user access.

SWIFT Alliance Lite

Urs Peter Kern, SWIFT's Senior Manager Trade says: "Since 2001, SWIFT has enabled corporates to obtain financial services with all their financial institutions through one single, highly secure, standardized communication platform." He points out that more than 450 corporates worldwide use the single SWIFT channel to over 8500 financial institutions in order to reduce costs and risk, increase visibility of funds and improve automation for easier regulatory compliance. In November 2008, SWIFT responded by launching a set of standardized messages to settle documentary transactions (L/Cs and guarantees). Since then, SWIFT has also offered a new connectivity product, SWIFT Alliance Lite. Kern says that Alliance Lite is a one-stop package, which contains everything a corporate needs to connect to SWIFT without installing any SWIFT-specific software.

"Adoption of new approaches and solutions takes several years"

Metsäliitto Group, the eighth-largest forest industry group in the world, made a strategic decision to use SWIFT for multi-bank connectivity to facilitate trade and cash management. Its five business areas include wood supply, wood products, pulp, board and paper, and tissue and cooking paper, amounting to more than €8.0 billion in yearly sales. Pekka Tunturi, Trade Finance Manager, Metsä Group Financial Services, said: "In the past few years, the Metsäliitto Group has changed its L/C workflow from paper-based handling to the electronic way of working." He added that all the L/C handling work was formerly based on papers received via fax or e-mail from the different counterparties involved, but the multi-bank platform has given the Group the possibility of receiving L/C information electronically into its system, giving it the opportunity to harmonize the workflow on whole company level and to speed up the whole L/C process. The Group is looking forward to linking its system to the SWIFT network.

Adoption of new approaches and solutions takes several years and requires a strong commitment from vendors and early adopters. The difference between success and failure depends on the value of the business case and the power of those who benefit most from new solutions to push them through to other participants in the trade chain. The active involvement of SWIFT in trade messaging between corporates and banks should help speed the process.

Technology has significantly matured in the last ten years. The result: with L/Cs and guarantees we have moved from telex to fax to e-mail to proprietary Internet-based platforms and on to multi-bank collaborative platforms. The next ten years should certainly be interesting.

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- The outcome of the URDG revision
- An update on the revision of Incoterms
- Trade finance market developments in China
- Banking Commission Opinions from the November meeting
- And more

In brief

Captive insurers turn from L/Cs to trusts

Captive insurers – insurance companies wholly owned by a company not involved in the insurance sector that provide cover for risks of the group to which it belongs – are turning away from L/Cs as a form of collateral, according to speakers at a captive insurance conference in Vermont, USA. The insurers say trusts on the other hand are becoming more commonly used as collateral for the conventional insurance companies that provide services for a captive insurer. Captives are often required to post a L/C, cash or a trust as collateral for the domestic insurance company that provides claims or administrative services to a captive insurer. But while L/Cs used to be the most common vehicle, tighter bank credit has prompted captives to turn more often to trusts for collateral. Trusts apparently operate much like savings accounts out of which money can be allocated to pay whatever obligation is expected from the fronting company that provides services to a captive insurer.

UAE firms turn to multi-bank platforms

Two associated UAE-based firms have opted for a web-based multi-bank platform that aims to streamline the management of their L/C and other trade finance functions. Emirates Trading Agency LLC and Associated Constructions LLC (ETA Ascon Group) have opted for the @GlobalTrade solution developed by Canada's GlobalTrade Corporation (GTC). By adopting @GlobalTrade (see "Electronic trade news" in this issue), the group says it will be able to access solutions to process import and export L/Cs and collections as well as guarantees. Because the solution is a multi-bank platform, ETA Ascon Group will be able to process transactions with several major banks in Dubai. The group hopes that by automating and standardizing its trade finance activities on the new software, it will be able to reduce risks and view transactions handled by several banks on one electronic page.

Tougher restrictions in Nigeria for oil marketers

The Central Bank of Nigeria (CBN) has ordered tighter restrictions on the country's commercial banks, making it more difficult for them to issue L/Cs to oil marketers. The measure is one response to a massive build up of bad debts in Nigeria's banking sector, substantially caused by oil marketers' inability to repay loans. Reports suggest that bad debts across Nigeria's banking system may have reached as much as 800 billion naira (N800 billion) or around US5$ billion. The situation is variously blamed on poor credit assessments by chief executives of more than a dozen commercial banks and ineffective regulatory controls by the CBN, the Securities and Exchange Commission and the Economic and Financial Crimes Commission. Oil marketers are also seen as significant contributors to the high level of indebtedness: the total exposure of five banks to oil and gas debts alone stands at more than N487.02 billion. Now the central bank has made it harder for oil marketers to obtain the L/Cs they need to do business by restricting loans to an amount equivalent to 10 per cent of a company's share capital.

Citigroup to support municipal L/Cs

Citigroup is going ahead with two new lending initiatives worth US$6 billion supported by US government bailout funds. An initiative to boost municipal L/Cs is the larger of the two programs announced by the banking giant. Citi will provide up to US$4 billion in municipal L/Cs in one initiative, while the other will see US$2 billion earmarked for mortgage originators. The lending initiative for municipal clients builds on a US$5billion programme Citi had already approved that provides loans to the public sector for directly funded capital projects such as new buildings and infrastructure. The L/Cs will be available to local governments, municipal agencies, health care groups and other public sector clients and will be for a tenor of up to three years. The New York-based bank says it has approved more than US$50.8 billion of lending programs supported by funds provided under the US government's Troubled Asset Relief Programme (TARP).