As a growing number of corporates seek out multi-bank trade finance solutions, third-party providers are witnessing growing demand for their offerings. But the days of proprietary solutions are not over, and banks may yet have another hand to play. *Liz Salecka* reports.

The way in which large corporates and multinational corporations (MNCs) manage their trade finance activities is set for a major overhaul as they seek out trade finance solutions with multi-banking capabilities.

Increasingly, large corporates with several banking partners are looking to replace proprietary bank portals and formats with multi-bank trade finance solutions to improve visibility into, and the management of, all their trade finance transactions.

"Corporates that use the services of five to 10 banks or more are finding it inefficient to work with every bank on an individual basis," explains Arthur Vonchek, CEO of Bolero, pointing out that this is also the case when it comes to cash management, payments and foreign exchange. "Trade finance is getting to be seen as a core process and a corporate does not have control over its trade transactions unless it has visibility across all the banks it works with."

While some major corporates are seeking to address their needs for multi-banking capabilities by building their own platforms, others are investing in independent trade finance solutions from players such as Misys and Global Trade Corporation (GTC), whose solutions leverage on Swift rules for messaging and communications, and Bolero, which offers its own secure electronic multi-banking channel. [See box out.]

At Swift, Andre Casterman, head of corporate and supply chain markets, acknowledges that the need for multi-bank solutions is a growing topic among large corporates:

"Corporates that conduct a lot of trade transactions, which have huge volumes of letters of credit and guarantees to manage and work with a number of bank partners, are looking for multi-bank solutions," he says.

"To improve access to information, they are centralising the management of trade transactions and investing in multi-bank trade finance solutions from independent vendors. These solutions interface with their partner bank systems via the internet or via the Swift MT798 messaging standard."

GTC is one independent player that has already experienced an upsurge in demand. "Demand for multi-bank trade finance solutions has doubled over the last year, and we expect it to double again this year as an increasing number of corporates realise that better solutions are available," says Jacob Katsman,

chairman and CEO of the company, which offers its Swift-accredited trade finance platform directly to corporates and also enters partnership arrangements with banks. "We are helping corporates to deploy solutions that offer a real and significant benefit to their treasury operations."

Katsman explains that when the internet became accepted as a viable channel for trade finance business in 2000, banks started to develop their own front-end systems for communication with corporate customers, but that "these were one-to-one communication channels, which mainly focused on optimising the bank side of the relationship".

"What banks did not think about then was how this would affect larger corporates, which use several banks for a large number of trade finance transactions. At this stage, we developed an independent software solution, which can be licensed by a corporate, and used by its treasury, multiple business units and logistics providers with open, electronic communication channels to multiple banks."

Large corporates can bargain

A number of world-leading corporates have already pioneered the movement towards multi-banking, taking advantage of the stronger negotiating powers their scale affords with banks.

At ACI Worldwide, Chris Principe, product manager of global trade and supply chain, points out that Glencore, which adopted Bolero's multi-bank solution in 2005, was in a strong position to instruct its partner banks to use its new format, as was GE, which built its own multi-bank platform.

"It is definitely the case that larger corporates have the bargaining power to dictate to their banks the formats they should use. However, for other corporates, buying or building a multi-bank solution can prove to be expensive – and then they also have to get their banks to work with it," he says.

For these reasons, proprietary banks solutions are still expected to play a valuable role in the trade finance activities of mid-market corporates and smaller companies.

"Corporates objectives will vary, depending on whether they are mid-market companies, SMEs or large corporates. For smaller organisations, having a single portal through which to transact trade may be all they need," says Paul Johnson, director, senior product manager of global trade and supply chain products at Bank of America Merrill Lynch (BofAML).

Katsman agrees, pointing out that proprietary solutions will not be completely replaced by multi-bank solutions. "A company using just one bank will not need a multi-bank platform. Proprietary solutions are also relatively inexpensive to deploy – and are made available by banks for only a small fee," he says.

Banks take a lead

However, banks, which have made significant investments in their own trade finance front-ends and formats, have not turned a blind eye to large corporate clients' demands for multi-banking capabilities – nor the challenge emanating from third-party providers.

Two years ago, 12 banks, including Citi and BofAML, came together to devise the lead bank model under which one bank (the lead bank) provides its proprietary portal to a corporate client and then takes responsibility for feeding through all messaging and communications between that corporate and its other bank partners via the one trade finance portal.

"The growing demand for multi-bank solutions presents a difficult hurdle for banks, which must focus on client needs," explains Johnson, who points out that while 90% of companies will still continue to use proprietary portals, the other 10% (large corporates) account for a disproportionate amount of bank revenues. "Banks do not have an issue if corporates opt to buy a third-party vendors solution – but it would be great if we could offer them a multi-bank solution ourselves."

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Johnson explains that the lead bank model represents a way in which banks can leverage on their sunken costs. Banks like BofAML have made a significant investment in proprietary portals for which there is an installed client base.

"We can now leverage on that investment to provide our clients with a multi-bank solution, which also offers them a lower-cost [than investing in a third party solution] option," he says.

The lead bank model is now taking important steps forward to becoming a reality with both Citi and BofAML expected to start offering it as a multi-bank solution to their clients in the near future.

Swift itself is also adding new features to MT798 to support the model. "This solution is geared at the mid-cap market, and aims to address the needs of those corporates that want a proprietary bank solution but do not want to work via multiple portals," says Casterman.

However, there are still some doubts over how the lead bank model will work in practise.

"Many banks may look at this as a competitive liability," says Principe at ACI Worldwide. "The lead bank model

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Jacob Katsman, GTC

has challenges of its own. In some ways, it is similar to ways that some large banks insource trade and trade processing from other banks. This type of offering has only appealed to some Tier 2 and Tier 3 banks and below, which have fewer options available to them. "The other side to the lead bank model is that you need corporate clients to co-operate on the use of this type of model too."

Markus Wohlgeschaffen, head of global trade finance and services at UniCredit, points out: "The whole concept of using another bank's proprietary system to reach your own corporate client still has to be tested."

This is acknowledged by Johnson who explains that some banks have been more supportive of the lead bank model than others. "Much depends on whether they see it as an opportunity or a threat," he says.

"Some banks may choose to white-label a Swift-accredited third-party vendor's multi-bank solution, which they can then offer to corporate clients," he continues. "But, in this case, they will have to determine which of the multi-bank solutions available in the marketplace at present is the best one. Ultimately, over time, the market will decide which multi-bank solution has the most traction."

Room for collaboration

The potential for banks to collaborate with third-party providers to make multi-banking solutions available to their large corporate clients has already been exploited by certain banks.

UniCredit, which has not made a major investment in its own proprietary bank portal for trade finance, has been working with GTC, whose offering the bank supports, in addition to its own portal solution, which is built with GTC technology. Wohlgeschaffen points out that in the past, where a corporate client has not wanted to implement the GTC software within its own IT environment, UniCredit has been able to host it for them – and rent it to them.

"UniCredit is in a position to offer

Arthur Vonchek, Bolero

Which way now for communication between banks and corporates?

Although the ability to manage and control data related to export and import business with different banks is a crucial element of a multi-bank trade solution for corporates, so too is the use of a common communication channel and messaging format.

Here, Swift is promoting its own network and the MT798 messaging format as an industry standard for trade finance communications between banks and corporates, but there are other key players in this space including Bolero, which offers its own secure electronic multi-banking channel solution.

At present, about 35 banks are supporting Swift's MT798 standard for trade finance communications, while 12 corporates are either using it, or in the process of adopting it.

"We have more implementations going on at this point in time, and initial implementations that started in 2011/12 are now going live," says Swift's Casterman, identifying Alcatel Lucent, Reliance Industries in India and Safran in France as early adopters. "More and more banks are also adopting MT798, and are ready in their back office to support this standard."

He, nevertheless, adds that the speed of take-up of MT798 by the corporate community has been affected by the fact that corporates must first go through a request for proposal (RFP) process, and select an appropriate trade finance software solution, before adopting the Swift standard for multi-bank communication.

Meanwhile at Bolero, Vonchek points out that although Swift and a number of banks are promoting MT798 as the industry standard, the wider market is not yet using it.

"There needs to be greater awareness and take-up for it to perform this role," he says.

"A large number of banks have strategies, which support both Swift's MT798 standard and Bolero. Other independent technology providers that offer completely open platforms and do not have their own channels also use both Swift and Bolero."

He adds that one of the benefits of Bolero's approach is that third parties involved in trade finance transactions, such as insurance companies, shipowners and carriers, can use the same channel. "At Bolero, we rely on the internet for connectivity, and this means our format can be used to reach everybody – not just other parties that are already using the Swift network," he says. "There needs to be a way to connect to these other organisations seamlessly too."

Similarly at ACI Worldwide, Principe believes that it is still early days for MT798. He notes that, despite initial efforts to promote the standard in the US, many North American banks have not interested in using it because they cannot see any benefit in giving corporates another entry point from a competition perspective.

"As a result, so far the take-up of MT798 has been primarily by European banks, where the European Union plays a big role in encouraging co-ordination. Germany has also been using a common trade format for some years so it was easier for German banks and corporates

its corporate clients the option to host the GTC software for them, but many of our clients have directly purchased the software themselves," he says, noting that large corporates are more likely to go out and talk to independent software providers about buying their own multi-bank software solutions.

He adds that, although UniCredit does have a preference for the GTC solution given its own "good experiences", the bank does not insist that a corporate client should use it.

To make the GTC software solution more readily available to mid-market and smaller clients, UniCredit also has plans to upgrade its own portal solution with multi-bank trade finance functionalities.

"Smaller clients will be able to utilise our multi-bank portal to communicate with each and every bank they deal with. The benefit of this approach is that these clients do not need to purchase and host software that is designed for 'heavy users' themselves," says Wohlgeschaffen. "Many smaller companies do not want to purchase a comprehensive software solution for trade finance so a multi-bank solution offered by a big bank is attractive to them." GTR

Other solution providers

Although independent vendors of trade finance solutions look set to steal much of the limelight when it comes to servicing the needs of large corporates and MNCs, there may be scope for other players in this space too.

According to Swift's Casterman, providers of Enterprise Resource Management (ERP) systems, such as SAP and Oracle, could play a valuable role – if they address large corporates' growing requirements.

"The software systems corporates use for their payments and cash management do not typically include a trade module," says Casterman, pointing out that large corporates rely on ERP systems, and often have a treasury management system in place, but that neither of these solutions typically offer trade finance functionality.

"I believe that ERP vendors should look to implement a trade finance module into their solutions as it is becoming increasingly apparent that corporates are looking for full integration between their trade finance software and ERP systems," he adds.


Andre Casterman, Swift

to see the value of MT798," he says.

There are, however, a number of proponents of the Swift network and MT798 among banks on both sides of the Atlantic.

"There is much value to be gained from investing in a solution that leverages on Swift connectivity," says Johnson at BofAML, pointing out that the Swift network offers access to an installed user base of about 8,000 banks and a growing base of corporates – about 1,000 at present.

He adds that Swift has also recently made it easier for corporates to join its network. Last year, it launched Alliance Lite2, a cloud-based connectivity option for corporates, which provides them with a low-cost option to join Swift.

Meanwhile, UniCredit, which relies on the DTA standard for messaging in Germany, plans to use Swift's MT798 messaging standard for communications with banks and corporates in other countries.

"If the world had adopted the German DTA standard, we would not have needed MT798. However, our activities are not restricted to Germany. We have international clients and do not deal solely with German banks and, therefore, we will use the MT798 standard for the automatic exchange of data," says Wohlgeschaffen, noting that UniCredit is involved in pilot projects with several clients for MT798 messaging. "The world wide web can also be used as a communication channel to exchange data, but may not be as secure as the Swift network."

He adds that it is up to Swift, and clients that are contractually connected to Swift, to consider allowing other third parties such as freight forwarders to use the Swift network. "However, here we are dealing with smaller amounts of information, which may not be so critical," he says.

Another factor, which is expected to favour the use of MT798 is that Swift's role in enabling communications and messaging between banks and corporates goes well beyond trade finance.

"Swift offers more than a standardised format for communications between banks and corporates in the trade finance space. Swift messaging standards can also be used for cash management, foreign exchange and other activities within the corporate treasury space," concludes Katsman.

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Markus Wohlgeschaffen, UniCredit