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Banks gear up for UCP 600

by Mark Ford



The UCP Drafting Group at the first conference on the new rules

Road shows, conferences, seminars, workshops, interactive training sessions and all manner of other initiatives were on offer to provide documentary credit specialists with the knowledge they need to work with the new version of the *Uniform Customs and Practice for Documentary Credits (UCP 600)*, which came into effect on 1 July 2007.

Some banks started the awareness-raising process earlier than others. Several tapped into the deep pool of knowledge of the letter of credit professionals who participated in the arduous task of framing the new rules and procedures.

How effective the sum total of UCP 600 awareness- and knowledge-raising events will be remains to be seen. The quality of training may have varied, and no doubt the introduction of the new

rules is a "work in progress", since unforeseen issues with the latest international framework for documentary credits are bound to emerge in the months after the implementation date.

Favourable responses

Responses to some initiatives have been favourable. One participant working in the oil and gas sector described an April seminar on UCP 600 organized by Standard Chartered Bank in the UAE as "a unique opportunity to learn about the technical aspects of the UCP 600 rules that will assist us in preparing ourselves for the imminent changeover".

Moreover, the attendance of senior bank staff at UCP 600 events underlined the importance major financial institutions attach to the new rules and procedures. When Citibank in Bangladesh organized a workshop on UCP 600, Khondoker Rashed Maqsood, Director and Head of Global Transaction Ser-

vices, and Abrar A Anwar, Director and Head of Corporate Banking, turned up to support the interactive session led by Moinul Huq, Citibank's Head of Trade Product and Sales.

Deutsche Bank was quick off the mark in September 2006 when it launched its UCP 600 workshop programme. The bank told *DCInsight* that it had carried out over 80 workshops on UCP 600 in countries around the world to over 6,000 participants.

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Special report

Multi-bank web-based technologies

by Jacob Katsman

Ask most bankers currently providing trade services to large corporate clients if they would like to connect to their clients using a multi-bank platform and you will likely hear “no” as the answer. “Do you mean give up our proprietary front-end system in which we have invested millions and now integrate our back office with a platform to which our competitors will also have access? You must be kidding.”

All kidding aside, most bankers would agree that a distinction should be made between small, mid-sized and large corporate customers and their different needs in trade services, although they may all use the same trade-finance products. As banks attempt to become more deeply involved in their clients' supply chains, it has become evident that a thorough needs analysis is required in order to understand what solutions credit managers, treasurers and CFOs are seeking from their banks, how they want these solutions delivered and what they are prepared to pay for them.

This article examines the current market environment, the impetus for change, and the corporate and bank benefits that a multi-bank technology solution can provide.

The last seven years

Over the last seven years, internally or with the assistance of external software vendors, trade banks have developed web-based front-end systems, such as an import letter of credit application, that were designed to capture information from their corporate clients and deliver the information, such as advice of payment details, from a bank's back-office system to clients. At best, such front-end systems are fully integrated with the bank's back office and information flows seamlessly from the corporate customer to the bank without manual intervention from the bank's

staff. At worst, some systems just capture the information from the corporate via a web form, and then the bank's processing staff have to cut and paste this information into the bank's system or systems.

Banks began to offer such “solutions” to their corporate customers, hoping to replace telex, fax, phone and courier communication. For corporate customers that dealt only with one bank, a one-to-one front end would fit the bill. However, corporate customers with multiple banking relationships have found dealing with disparate bank systems inefficient.

Just the need to remember various user names and passwords, to train staff and to log into different systems have been making the solution more difficult than the problem it was designed to solve. To view the overall outstanding position across banks, in terms of liability, credit availability, risk exposure and bank charges, the treasury staff would need to continue to manually enter data daily into their own ERP system or spreadsheets. This information then has to be reconciled with the data of respective banks, each having a different service level, reporting format and reporting period. Some banks would agree to send information via e-mail while others would use faxes or regular mail. Such varied communication methods create process inefficiencies, fulfillment challenges and delay delivery of critical information needed for compliance and decisions.

Current market environment

“Supply chains” are among the buzzwords likely to be on the agendas of bankers and corporate executives alike in 2007-08. Most banks maintain that the financial supply chain is nothing new and that banks have been financing buyers and sellers long before the term

Financial Supply Chain (“FSC”) became so popular. Others argue that banks must take a more active role in facilitation of not only their financial services but the overall trade process, including collaboration with logistics providers and counter-parties of their clients, be they on the import or export side.

Many of the top 20 global banks with enough size and scale and multinational client portfolios have already begun investments in financial supply chain initiatives and have hired staff with titles such as Head of Financial Supply Chain, or have dedicated teams investigating FSC opportunities within product management departments.

At the same time, some banks are merging their cash management, foreign exchange and trade departments under one umbrella with global product and sales responsibility for standardizing systems, products and sales coverage, while other banks have taken the position that they should maintain regional trade product experts, with dedicated staff focused on specific customer segments.

SWIFT has completed its Trade Service Utility (“TSU”) pilot designed to provide standards, messaging and matching engine for banks and is preparing to go live with global financial institutions. Strategically, the TSU project is designed to expand SWIFT's focus from traditional trade instruments to supporting bank services across the entire corporate supply chain. TSU itself does not provide an application for corporations to connect to banks, but serves as a technical and standards foundation on which banks can build their own applications for various financial supply chain needs.

Many banks are now in the process of building proprietary applications restricted to the bank's clients. Although some big bank system initiatives are marketed as multi-bank, the extent to

“trade banks have developed web-based front-end systems”

which they incorporate multi-bank functionality generally focuses on the insourcing of clients' processing. For example, a bank may outsource document preparation under export letters of credit and may present documents to the confirming bank, the so-called other bank.

But a truly multi-bank platform exists where a corporate client makes its own decision to direct information electronically in a standard format to any bank in its bank group and receives information electronically in a standard format from any bank in its bank group. Participation in such a platform should not be restricted by price or the need to have special hardware or software. Access must be open and secure to meet banking standards.

Impetus for change

The time of "we build and users will come" is long past for most financial institutions, which are faced with many competing investment opportunities covering a multitude of product and service areas. When a new product idea is being considered, a senior level sponsor must be found who is prepared to push forward a comprehensive business case that addresses the questions of which clients need this product and how an acceptable return on investment will be achieved. A solid business case is a "must have" before moving forward, even with a pilot project.

Even when a solid business case is presented, decision making by a committee can be a lengthy process, and by the time a decision is ready to be made, the senior executive or the sponsor may well have moved to early retirement or to another position within the bank. The process must therefore begin again or is often supplanted by other priority projects.

It is becoming more evident that the party that can heavily influence the business case and elevate the importance and priority of a new product idea is a highly valued customer, or potential customer, that generates millions, or at least hundreds of thousands, in annual revenue for the bank. If this customer tells the relationship manager that a new product and/or service is a high priority for it, the bank is more likely to take action to ensure a valued client, and substantial revenue source, is not lost.

Many regional banks profess to be too small to compete with major money centre institutions. Lack of budgets and key IT staff to meet the expenditures required, along with a small customer base, are the reasons often cited for the difficulties they face in undertaking complex product initiatives on their own. In reality, teaming up with external providers could enable them to take advantage of the leadership and resource commitments of others to facilitate product innovation at a cost commensurate with their market.

Multi-bank platforms: corporate benefits

When speaking about benefits it is important to first understand who will be the beneficiary. Benefits for the logistics department staff are different from benefits to the financial department staff, and benefits to the treasurer and CFO are different yet again. People in the finance or logistics department preparing documents under export letters of credit would derive benefits from a system that helps them prepare compliant documents, reducing errors that could lead to discrepancies resulting in late payment.

One of the main benefits to the treasurer will come from the reduction of Day Sales Outstanding (DSO) that a system would provide through collaborative electronic document preparation and remote printing of documents at the bank. The treasurer and CFO will benefit by having real-time information on utilization of credit lines and risk exposure to various countries and counterparties

Some corporate benefits from using a multi-bank platform for processing guarantee and standby letter of credit transactions, among others, include:

- availability of real-time information on utilization of credit lines across all banks – no more searching through multiple, incompatible systems;
- fast and accurate guarantee-application processing through the use of structured workflows, electronic templates, standard clauses and the ability to copy from previous transactions;
- internal cost savings due to standardization of guarantee issuance across all business divisions of a corporation and the treasury department;
- reduction of errors through validation of key data fields in the application based on pre-set approval levels, and
- ability to standardize and reduce commissions and commitment fees.

The technology that facilitates these benefits could be purchased by the corporate and banks would be invited to participate, or a bank could offer a hosted multi-bank solution to its clients.

The HVB/EADS case

HVB is the third largest private bank in Germany with 5 per cent of the market share, over 26,000 employees, 680 branches and more than four million customers. EADS is a global leader in the aerospace and defence industry with revenues of EUR 34.2 billion in 2005. @GlobalTrade is a multi-bank and multi-entity application that facilitates the uniform, real-time and secured exchange of information between all parties.

HVB is hosting the platform for its customers and supports the full range of trade-services business, as well as agent services for guarantee facilities through this platform. All fees and commissions are settled by HVB on behalf of EADS to the banks through a single consolidated fee account, and a system of individually assigned reference numbers facilitates for EADS NV an automated allocation of fees and commissions to the respective subsidiaries through the respective inter-company accounts. The platform provides tailor-made user administration and password handling for EADS and the banks and automated file transfer to EADS' reporting systems.

Consolidating the information available from all banks in one web-based system reduced the complexity and considerably improved the task of monitoring and control for financial people, both within subsidiaries and the central treasury.

Bank benefits

For banks, the platform can deliver, among others, the following benefits:

- closer long-term relationships with clients by becoming an integral part of clients' supply chain;
- additional revenue through increasing the number of transactions as a result of the closer relationship and service that the bank is providing;
- additional transactional or license revenue as system provider and facilitator; and
- ability to offer value-added trade services.

Market research by GlobalTrade Corporation 2005-2006 has shown that corporates would prefer to purchase ASP trade service solutions from banks rather than from software vendors for reasons of business continuity and compliance. The risk of business failure or of the customer's data falling into the wrong hands is considerably less when dealing with a financial institution.

Considering that a bank could offer its services as well as the technology makes the value proposition compelling. The main advantage is the true multi-bank functionality and the positioning of the platform from the client's perspective. The client is at the centre of the platform and can improve communication, not only with all its banks, but also internally within its organization. ■

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Macau bank accused

A small Macau bank accused by the US of money laundering and distribution is accused of providing L/Cs to North Korean clients. The bank in question, Banco Delta Asia (BDA), denies allegations of wrongdoing in respect of its business with North Korean clients and banks. In March 2007, the US Treasury Department ordered all US banks and companies to sever ties with BDA following an 18-month investigation. BDA plans to challenge this ruling. The US Treasury blacklisted BDA in June 2005, labelling it a "weapons of mass destruction proliferator and supporter".

DOCDEX

A Decision rendered by ICC experts

DOCDEX Decision no. 259

ISBP 645, paragraphs 28 and 92; UCP 500 article 32 and sub-article 14(d)

Date on a draft; on board date on a B/L; invoice number in commercial invoice v. number on the B/L; "clean on board" on a B/L; description of goods and beneficiary's address

Parties

Initiator (confirming bank): Bank F
Respondent (issuing bank): Bank T

Background and documents

The Experts have studied a Request for a DOCDEX decision received from the Initiator regarding a dispute over a presentation of documents made by the Initiator under a letter of credit, subject to UCP 500, issued by the Respondent on 10 June 2005.

We have been informed that the Respondent has not filed an Answer in accordance with article 3 of the DOCDEX Rules.

The Experts have made their decision based on the Request and the following documents submitted by the Initiator: 1) a copy of the letter of credit in question; 2) copies of amendments to the letter of credit; 3) copies of the documents in dispute and copies of the correspondence between Initiator and Respondent regarding the case.

The Respondent's refusal of the documents dated 1 August 2005

After having received the Initiator's presentation, the Respondent sent a SWIFT MT799 to the Initiator on 1 August stating the following six points as discrepancies:

- The date of draft did not show on the draft.
- The "on board date" cannot be identified on bill of lading.
- The "invoice no." in the commercial

invoice and the insurance policy are inconsistent.

- The "clean on board" notation did not show on the bill of lading.
- The description of goods in invoice i/o L/C terms.
- The beneficiary's address in invoice i/o L/C term.

Analysis

Item 1: The credit is available by negotiation and there is a requirement for a draft drawn on the Respondent, but there is no requirement in the credit for this draft to be dated. It is, however, a requirement of bills of exchange laws in most countries that even sight drafts, as in this case, be dated, so it is not unreasonable that the Respondent considers the lack of a date a problem even if, strictly speaking, it is not a discrepancy.

"most countries [require] that even sight drafts ... be dated"

To solve the problem, the Initiator asked the Respondent to put the missing date on the draft. That was done on the same day the Initiator received the refusal notice, 1 August. On 4 August, the Initiator repeated its request for the Respondent to put a date on the draft and, at the same time, conveyed the beneficiary's authorization for the Respondent to do so.

As the Experts cannot imagine that any bank would refuse to act on a request like the one received from another bank, we consider the discrepancy, if there was one, as settled.

Item 2: The bill of lading, which is dated "7 LUG. 2005", is one with pre-printed wording stating that the goods have been shipped on board and, in addition to this, there is a notation on the bill of lading stating "GOODS ON BOARD - 7 LUG. 2005". There is no discrepancy.

Item 3: The presentation includes two different invoices, and the number of