



# Open account trading

In one of a series of Citigroup's perspectives on global trade, the bank here looks at reducing costs and improving efficiencies worldwide.

As the number of companies participating in cross-border trade continues to increase, so does the need for risk mitigation, efficient document processing and financing. With the world's total annual import/export volume in merchandise and commercial services increasing by more than 40% in the past five years – from US\$14.4 trillion to US\$20.5 trillion, according to the WTO – and projections for even higher levels, trade participants around the globe will experience borderless opportunities. In addition, the trade marketplace has undergone a dynamic shift in transaction formats from both ends of the supply chain, affecting importers and vendors alike. Specifically, there is a noticeable transition from letter of credit (LC) to open account trading, allowing savings and enhanced efficiency throughout the purchasing cycle. Within domestic markets, open account trading has always existed. Until recently, however, major barriers such as a lack of transparency and apprehension about cross-border exposure, have limited international open account trade. Advances in technology and increased financial knowledge are

diminishing these concerns, as both buyers and seller recognise benefits such as reducing costs and improving efficiencies through cross-border open account trading. "Without question," says Claudia Slacik, global head of Citigroup Trade Services and Finance, "the global trade business is experiencing remarkable growth, with increased activity from new

entrants as well as veterans in the marketplace. This expansion is being supported in great part by the growing popularity of open account trading. Around the world, Citigroup has seen a marked increase in the number of open account trading transactions among our clients and the number of product inquiries we're receiving from our major corporate accounts." shows negligible growth in the trade message category, and combined with the large increase of imports/exports, supports the notion of a shift from traditional LCs to open account trading. This transition is most evident in the US and Europe. John Ahearn, managing director and business unit manager of Citigroup Trade Services and Finance globally, notes that,

the creation of the Euro zone, with companies using credit insurance and factoring to mitigate their risks. Now these importers are reaching out to Asia and need to implement the same cost effective cross-border sourcing systems as their brethren in the US." The above situation is having a significant negative impact on exporters. Suppliers could previously rely on LCs to mitigate the risk and to obtain financing. Furthermore, in the Asian market banks would provide up to 85% working capital advances against LCs to finance the production of goods. Now this source of funding is not as widely available.

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**Global market dynamics: shift to open account**  
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"intense competitive pressures are forcing participants throughout the supply chain to improve their efficiency and drive down costs. The largest importers no longer want to rely on time-consuming and labour intensive commercial letters of credit. Instead they are seeking transaction interfaces to take advantage of the data contained within their ERP systems and to promote straight-through processing." Serra Akcaoglu, EMEA regional trade head, says that in Europe, "open account trading has taken over since

## Rising demand for vendor financing worldwide

It is no surprise that the marketplace is characterised by a significant increase in demand for vendor financing, confirms Andrew Au, Asia regional trade head: "The traditional trade business in Asia is still strong and vibrant for us, but we recognise the world is changing rapidly, and we're gearing up to do more and more vendor financing in response to our exporter clients' demand."

Market changes leading to increased vendor financings are likewise expected in Latin America, according to Steven Puig, Latin America regional trade head. "The growing demand for vendor financing is a phenomenon not only in Asian markets," he says. "Our clients in Latin America are also looking for finance packages, with longer-term tenors that meet their specific requirements. For example we are now putting together 3-5 year multi-buyer pre-export financing packages." Vendor financing consists of two components: pre-shipment financing and post-shipment financing. Pre-shipment financing transactions are considerably more complex as the bank's decision to provide funding is determined by the vendor's ability to produce and deliver the goods and requires that the bank have in-depth local market experience and insight.

"While we consider the pure processing business to be core to our trade services, at Citigroup our added-value, our definitive differentiator, is our ability to provide vendor financing," says Keith Karako, global trade finance head.

"Because we handle all its purchase orders, we know in detail the vendor's business history, including its success and dilution-ratios, product returns and the number of POs received, complied with and filled. Based on a rigorous review of the vendor's track record, we can then make a clear, independent judgment on providing pre-export financing."

Citigroup offers a unique advantage over other trade banks to suppliers seeking vendor financing via its on-the-ground network of 108 trade-capable branches in 72 countries. Citigroup's extensive global reach provides suppliers' with a single source for pre and

post-export financing around the globe.

### Citigroup Enhanced Open Account Trade: the premier technology platform for open account

Technology has greatly improved the speed, accuracy and security of global trade open account transactions. Citigroup's proprietary Enhanced Open Account Trade platform facilitates processing and relieves the administrative burden for clients making the transition from letters of credit

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to open account. As they make this switch, many importer clients are re-insourcing the processing that was formerly outsourced to banks. By using this system the importer can outsource the accounts payable function back to the bank.

Citigroup's open account trade platform accepts various types of electronic messages from the importer, delivers it to the appropriate vendor or warehouses it for subsequent document matching.

It then receives documents in either electronic or paper-based format, depending on what the exporter can provide, completes the required comparison of trade documentation in a low-cost environment and sends a response back to the importer using an electronic message.

This allows for international sourcing that looks and feels like a domestic transaction, including seamless integration with a client's ERP system.

### SMEs: the future of open account trading

Small and medium-sized enterprises (SMEs) will join large importers in transitioning from traditional letters of credit to open account trade. This market segment is composed of a variety of importing companies accounting for a large amount of trading activity. SMEs will follow the example of the larger importers to achieve the bottom-line benefits that accrue from open account trade. To service this market,

they can invest in technology. Citigroup believes the market will segment further into those FIs with trade capabilities and those without.

"All new products we are developing, as well as legacy systems, have been designed for private label for other FIs," says John Ahearn. "We believe there will be a rapid shift in the marketplace, where banks will need to capture both sides of the trade flows to have a profitable business." Citigroup, through white label processing, believes it can not only support its market place in the shift to open account, but can also play a critical role in supporting other FIs in bringing additional competencies to bare.

### About Citigroup Global Trade Services and Finance

With more than a century of experience, the largest proprietary network spanning more than 100 countries, and direct relationships with more than 3,000 correspondent banks worldwide, Citigroup Global Trade Services and Finance offers end-to-end import and export trade solutions designed to help enterprises around the world effectively manage risk and optimise cashflows.

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Citigroup can work in alliance with these firms and local financial institutions to provide the open account trading capabilities SMEs will soon need.

According to Claudia Slacik, "historically, products which have been developed for the large corporate sector migrate to the SME marketplace. We have seen this with a variety of our businesses including our accounts receivable finance program and document preparation program. We anticipate the movement to open account will follow the same course, the only question is the speed of market adoption."

### Impact of financial institutions

Citigroup believes this trend is here to stay and will put additional pressure on many financial institutions around the world. Clearly the bar continues to be raised as to how far FIs can grow their product set and how much