

CROSSING BOUNDARIES

Evolving electronic systems are blurring the lines between trade finance and cash management.

By Anita Hawser

International trade is almost as old as mankind itself, and although world trade volumes are constantly growing, some of the processes that support the transfer of goods between buyers and suppliers have remained relatively unchanged. Global trade is still a largely paper-based business, with a typical transaction involving 12 parties and the exchange of 27 documents, including letters of credit and bills of lading.

"International trade, whether it is the letter of credit business or open account trading, still contains a lot of paper," remarks John Ahearn, global head, trade services/financial institutions, Citigroup. Managing all that paper doesn't come cheap, either. Arthur Vonchek, CEO of Bolero.net, an electronic platform that enables "paperless trading" between buyers, suppliers, logistics companies, banks and customs agencies, estimates that processing financial and non-financial documents associated with the global movement of goods costs the industry in excess of \$2 trillion a year.

In 1998, anticipating that the emergence of the Internet could herald a new era of paperless trading, banks, in conjunction with logistics companies and financial-messaging and network-provider SWIFT, established Bolero.net. Its business proposition was to provide a secure electronic messaging platform for the transmission of financial and non-financial documents along the entire trade lifecycle.

Bolero suffered from the "build it and they will come" mentality, which argued that the Internet would prevail, forcing buyers and suppliers to abandon the paper-based processes they had depended on for centuries. Vonchek is, however, encouraged by recent activity on the Bolero platform. User volumes are up 384% on 2005 figures, and Dresdner Bank and HypoVereinsbank, among others, are leveraging its automated letter of credit solution. Eight ad-

ditional major and regional banks have recently signed on to Bolero's multi-bank platform.

A DWINDLING BUSINESS

Commercial letters of credit (LCs) have facilitated international trade for hundreds of years by providing a contractual agreement between the issuing bank acting on behalf of one of its customers, authorizing another bank to make payment to the beneficiary. Bolero's electronic LCs solution allows exporters to automatically download letter of credit advices for electronic distribution, eliminating processing costs and the manual re-keying of information and providing an electronic audit trail for regulatory purposes.

JPMorgan, the largest issuer of LCs in the United States, has invested heavily in electronic trade finance solutions including electronic LCs and Web-based document-preparation services for electronic bills of lading and certificates of origin, a suite of applications that can be accessed via its Internet customer facing system, Trade Channel. Other propositions for automating aspects of international trade have also sprung up: LCconnect enables electronic sourcing of export and standby LCs from banks, and TradeCard connects trading partners, routing and storing trade documentation electronically.

However, as David Conroy, global head of trade sales at Citigroup, explains, the costs entailed in managing LCs have forced companies to push their supplier base to move to open-account payment terms. "[LCs] are also expensive in terms of transaction fees and are inefficient because of the number of discrepancies that can occur," he says.

Conroy says retail industry players in Europe and North America have pushed banks to provide them with solutions that integrate their payment process to suppliers

while providing liquidity in the supply chain. Open account trading between buyers and suppliers typically does not require an LC, and although it carries a higher level of risk, it is less costly and process-intensive than LCs.

Citigroup's Ahearn estimates that 70% of global trade is conducted over open account. LCs, he says, account for approximately 30% of the total business, although it may be as high as 80% in developing markets such as China, where the level of risk is perceived to be higher. "In reality, however, the LC business is shrinking as trading volumes are increasing and the LC business remains stable," Ahearn explains.

THE BANKS' NEW ROLE

Open account, however, is an entirely different proposition for the banks from LCs. "The role banks have traditionally played in trade finance is the payment or receiving bank end of the cash payment or receivable," Jeremy Shaw, head of trade services at JPMorgan Chase Treasury Services, explains. "In the open account space, we are adding value to our customers by providing additional services such as matching the invoice and purchase order, making payment for the customer on that basis and providing some financing around that." In the open account space, at least, trade finance has morphed into what banks now call supply chain financing.

Conroy of Citigroup says buyers are interested in working with partner banks that can provide transparency and visibility into open account transactions. "[The buyers] are concerned with the financial viability of their supply base," he explains. "They are interested in the ability to connect with their suppliers and, from a financial standpoint, to provide working capital, visibility and cross-selling of financial services."

Alan Beattie, global head of supply chain management business at HSBC, explains the "e-enablement" of financial supply chain communities financing presents its own

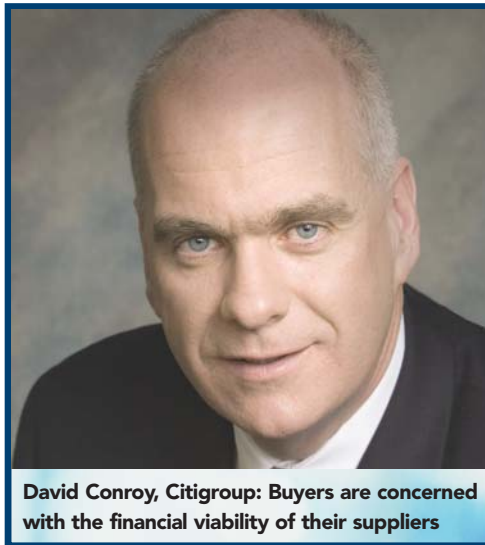
set of challenges. "It is all very well to e-enable a buyer," he says. "But some of these buyers have thousands of suppliers, some of whom are not very technologically sophisticated." Bolero's Vonchek says the "Holy Grail" for the banks is to gain access to customers' suppliers and offer financing to them, but that is difficult to do when the purchase order and the invoice are matched manually or using scanned documents, which does not provide the same

level of visibility as automating that process. Citigroup's Ahearn says that the purchase order is highly automated but that actual presentation of the invoice is still paper-based. "We are working with large buyers to take the invoices in electronic format so they can submit invoices electronically," he says.

HSBC has partnered with Bolero to develop a solution for one of its key global clients and its suppliers that provides greater visibility and automation in structured open account financing. Beattie says the solution enables banks to provide more value-added services to cus-

tomers as they have greater visibility into the data exchanged between buyers and suppliers. "If I can see the purchase order and invoice being exchanged, HSBC can take that information and ensure that the right working capital or risk management tool is provided to the right customer at the right price and the right time," he explains.

The savings that companies can realize by streamlining their supply chain financing and management are remarkable. JPMorgan Chase, for example, claims to have already achieved \$2 billion in total cost savings for its top 10 clients. "We are pushing boundaries," says Shaw, highlighting how trade finance has shifted from being a stand-alone business to an integral part of banks' treasury and working capital management business. Citigroup, too, believes it has the technology and the balance sheet to help buyers and suppliers streamline their supply chain. "Our goal is to break down borders," says Ahearn. "Companies want international transactions to feel like a domestic transaction."



David Conroy, Citigroup: Buyers are concerned with the financial viability of their suppliers