Best Practices in Trade Services

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Agenda

• The Current Environment: What are the numbers telling us?
• Challenges in the Network Trade Business
• Overcoming the challenges: Citi Trade Care
• Case Studies
Polling Question #1

What is the biggest challenge currently facing your Trade business?

A. Revenues are flat to declining

B. Having the network and/or credit capacity to support our clients’ needs

C. Outdated systems, leading to processing issues

D. Compliance requirements are making it too difficult to operate

E. Other
## Letters of Credit Sent

<table>
<thead>
<tr>
<th>Year</th>
<th>Total MT 700's sent</th>
<th>Amount Sent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 (a)</td>
<td>4,593,965</td>
<td>$2,782,581,724,725</td>
</tr>
<tr>
<td>2012 (b)</td>
<td>4,496,827</td>
<td>$2,852,434,942,241</td>
</tr>
<tr>
<td>2013 (c)</td>
<td>4,433,260</td>
<td>$3,114,813,223,286</td>
</tr>
<tr>
<td>2014 (d)</td>
<td>4,300,131</td>
<td>$2,987,675,884,184</td>
</tr>
</tbody>
</table>

### 2013

<table>
<thead>
<tr>
<th>Total MT 700's Sent</th>
<th>Amount Sent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>$163,348,701,692</td>
</tr>
<tr>
<td>Asia</td>
<td>$1,985,252,955,399</td>
</tr>
<tr>
<td>LATAM</td>
<td>$47,775,291,954</td>
</tr>
<tr>
<td>Europe - Euro Zone</td>
<td>$269,444,640,690</td>
</tr>
<tr>
<td>Europe - Non Euro Zone</td>
<td>$337,381,991,750</td>
</tr>
<tr>
<td>Middle East</td>
<td>$239,015,638,044</td>
</tr>
<tr>
<td>NAM</td>
<td>$72,594,003,757</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total MT 700's Sent</th>
<th>Amount Sent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>$160,091,992,935</td>
</tr>
<tr>
<td>Asia</td>
<td>$1,968,094,087,818</td>
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<tr>
<td>LATAM</td>
<td>$46,977,657,337</td>
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<tr>
<td>Europe - Euro Zone</td>
<td>$232,958,887,949</td>
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<tr>
<td>Europe - Non Euro Zone</td>
<td>$287,839,954,731</td>
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<tr>
<td>Middle East</td>
<td>$218,175,384,250</td>
</tr>
<tr>
<td>NAM</td>
<td>$73,537,919,165</td>
</tr>
</tbody>
</table>

a) 37,941 of Bangladesh domestic L/Cs removed
b) 137,781 and $4,410,723,571 of Bangladesh domestic L/Cs removed
c) 355,182 and $9,645,504,277 of Bangladesh domestic L/Cs removed
d) 366,045 and $10,819,712,071 of Bangladesh domestic L/Cs removed

Note: Domestic L/Cs are commonly used in Bangladesh between the factories and their suppliers. Due to incidents of fraud, the Central Bank decreed in late 2012 that such credits must be converted from paper to SWIFT, resulting in an extraordinary volume increase for the SWIFT system.

Source: SWIFT Traffic Watch and Value Analyzer for this and the following slide
Flow of the World’s L/Cs 2014- Volume

2014 Asia-Pacific to:

- Africa: 9,725
- Asia-Pacific: 2,345,268
- Central & Latin America: 21,620
- Europe - Euro Zone: 217,876
- Europe - Non Euro Zone: 98,192
- Middle East: 59,329
- North America: 146,886

2014 Europe to:

- Africa: 5,492
- Asia-Pacific: 446,151
- Central & Latin America: 5,118
- Europe - Euro Zone: 57,981
- Europe - Non Euro Zone: 40,817
- Middle East: 8,196
- North America: 7,581

2014 LATAM to:

- Africa: 76
- Asia-Pacific: 63,227
- Central & Latin America: 16,982
- Europe - Euro Zone: 15,060
- Europe - Non Euro Zone: 2,382
- Middle East: 339
- North America: 13,152

2014 NAM to:

- Africa: 846
- Asia-Pacific: 79,879
- Central & Latin America: 3,773
- Europe - Euro Zone: 4,609
- Europe - Non Euro Zone: 2,697
- Middle East: 1,959
- North America: 11,211

N.B.: 366,045 and $10,819,712,071 of Bangladesh domestic L/Cs removed
Why this downward trend?

Some factors influencing this trend World Trade trend:

- The slow recovery in developed countries and decelerations in developing countries are blunting trade growth
  - Among the cyclical changes, the anemic recovery in major developed countries, particularly the recession in the euro area, has led to weaker import demand

- An increase in post crisis Trade protection is restricting Trade growth:
  - After the eruption of the global financial crisis, a large number of countries adopted temporary protectionist measures on international trade and investment, restricting trade flows

- Some factors previously boosting trade growth before the global financial crisis may have run their course e.g.: Past Trade Agreements to reduce Tariffs and other Trade barriers and Technology innovations to lower the costs of international transportation
  - The strong trade growth in the 1990s and 2000s was supported by these factors (e.g.: Uruguay Round of multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT); the economic integration of the economies in transition, China and other developing economies into the global economy, which removed and reduced barriers to international trade and investment; the increased trade and monetary integration in the European Union (EU), especially the adoption of the euro

Currency of Trade Settlements

The US Dollar remains the dominant currency of global commerce; however, the RMB/CNY in 2013 surpassed the Euro to become the second most commonly used currency in L/Cs.

Top 3 Currencies

- **2013**
  - USD: 81.5%
  - CNY: 8.0%
  - EUR: 6.0%

- **2014**
  - USD: 80.0%
  - CNY: 10.2%
  - EUR: 5.9%

Source: SWIFT Traffic Watch and Value Analyzer (rolling 12 months)
Polling Question #2

• What are the main challenges or roadblocks you experience when aiming to provide “best in class client experience”?

A. Capacity, staff are overload with enquiries
B. Too many manual processes, operations is too paper based
C. Systems are old, not very user friendly
D. Credit approvals process is slow and cumbersome
E. Responding to enquiries from Applicants, Beneficiaries and communication exchange with Correspondent Banks
Multiple challenges in the Network Trade Business

Pricing & Profitability:
- Competitive Pricing?
- Unknown Fees
- Competitive rebates?
- Double charges

Network Reach & connectivity:
- Systems requiring upgrades
- RMA's maintenance; RMA's gaps
- Beneficiaries in remote locations

Expertise:
- Complex Structures & clauses
- Workability issues
- Document checking

Credit:
- Credit constraints; lengthy internal processes to grant credit approvals for deals

Compliance:
- Importer KYC
- Bank KYC/ CADD
- Exporter KYC
- Compliance/AML/OFAC/SDN checks

Service:
- Turn around times: no time commitments
- Enquiries Overload
- Critical Transaction
- Time Zone Differences
- Language Skills
- Multiple handovers; no End-to-end ownership

Typical challenges faced by the Issuing Banks

Letter of credit issuance is complicated
- Structuring the language of the L/C
- Technical questions about ICC rules (UCP 600, ISBP, ISP98, etc.)
- Compliance – Sanctions, AML & ATF, dual-use goods

Delivery of the L/C to the beneficiary
- Advising L/Cs into emerging market countries and unfamiliar territory
- RMA with the designated advising bank
- Credit support – Confirmation, discounting, refinancing
- Issuance of guarantees and bonds overseas

End-to-end servicing of the L/C transaction
- Apart from UCP, what assurance of timely processing
- Inquiries from the applicant (L/C advised? Documents presented?)
- Inquiries from the issuing bank itself (Why is this a discrepancy? Explain these charges)
- Inquiries from the beneficiary (Where is the payment? I need an amendment)

Finding ways to enhance revenues
- Applicants (issuing bank's customers) want their fees reduced
- Availability of rebates

Finding ways to be efficient
- Reduce processing costs for the issuing bank
- Reduce operational risks for the issuing bank
In summary:

- The Trade growth from previous decades is no longer there, “the pie is not getting any bigger”, but each one of the players wants to keep their slice of the pie or get even a bigger one!

- Numerous challenges faced by the Banks: clients require higher standards of service, they demand Banks to do things faster and cheaper (ask for lower pricing), while the costs of technology upgrades remain the same or increase, continuous investment in technology is required, compliance & regulatory changes require large investments and there is pressure to optimize the balance sheet

- So what can we do?
How is Citi addressing the challenges?

- Listening to our clients very carefully (Corporates, Banks and other segments) **what do clients really want?** What are their challenges? How should we enhance our product offerings?
- Listening to our people: what do our people need to provide better service to our clients? what can we do to make their jobs easier and enable them to be more productive and efficient? How should we enhance our processes?
Citi Trade Care Addresses our Clients’ Pain Points

**Macroeconomic Forces**

- World trade continues to expand, but the portion conducted under L/Cs is flat to declining
- In many countries, the pool of skilled trade processors is scarce and aging
- L/Cs often involve an emerging market component in an unfamiliar territory

**Client Challenges**

- Ongoing pricing and expense pressures
- Increasing regulatory obligations at the transactional level
- Decreased resources for product development/technology enhancements

**Solution**

**Citi Trade Care for Export L/Cs**

**Benefits to the Issuing Bank/Applicant**

▲ Increased profitability of existing flows
▲ Improved customer experience through end-to-end transaction support
▲ Access to a global network combined with in-country expertise

**Benefits to the Exporter**

▲ Access to credit (confirmation, discounting) from a top global player in the trade space
▲ End-to-end transaction support
▲ Optimized settlements through our roster of correspondents and our SLAs
Summarizing Citi’s Trade Care Value Proposition

Global Network & Infrastructure

- Citi has the largest global Trade network, spanning 124 cities in 71 countries, which covers the destination of 95% of all SWIFT MT 700 L/C transactions
- Our Centers of Excellence function as the network hub, executing the detailed handling of the transactions, with linkages to all of our Trade-capable branches
- The primary Regional Processing Centers of Excellence in Malaysia, India, and the US have 15+ years of experience, indicating a strong degree of stability and a well-known local reputation
- They provide contingency, redundancy, and load balancing for our network, resulting in an industrial strength set-up—which enabled us to grow our processing volumes by 7% in 2013 to 8.4 million items

Expertise & Experience

- Citi employs over 2,000 Trade Professionals worldwide, ensuring that we are adequately staffed for the constant fluctuations in transaction volumes
- The Trade Care team consists of 3 distinct roles: Trade Advisors, Trade Services Professionals, and Beneficiary Care Specialists
- 300 of Citi’s Trade Professionals are Certified Documentary Credit Specialists, who can apply their proficiency to the most difficult aspects of L/C processing

Capabilities & Efficiency Tools

- Citi operates a single proprietary back office processing platform, Trade Information Management System, or TRIMS, and an award-winning front-end, CitiDirect® Online Banking
- This power-house processing system uses scanning, document imaging, and electronic workflow to provide a single repository for all transaction details in support of customer service, while automating various tasks for efficiency and error-free processing
- We continually invest in the maintenance and enhancement of these systems to ensure their security, regulatory compliance, and leading edge capabilities

Knowledge, Insights & Training

- We have developed the Citi Academy for Financial Institutions, a training platform designed to provide proficiency in four core competencies of Transaction Banking: Global Trade, Payments and Liquidity, Compliance/Risk/AML, and Regulatory Change
- Our technical Trade Curriculum, taught by Citi’s Trade Advisors, has been certified by the Institute of Financial Services for CDCS continuing education credits
- Courses take place on-line and in-person on a regular basis, and are free of charge
Citi’s Trade Network & Infrastructure

Citi maintains the largest Trade Services network in the world, spanning 124 cities in 71 countries, with six regional processing Centers of Excellence that support around-the-clock operations.
Polling Question #3

*What is most important to your clients?*

A. Reliability

B. Pricing

C. Speed of service of the end-to-end transaction

D. Overall client service and client experience

E. Overall “Package”
Polling Question #4

• What is most important to you when choosing a Correspondent Banking Partner?

A. Pricing, rebates, additional revenue streams

B. Reliability, confidence that your Correspondent will deliver

C. Speed of service of the end-to-end transaction; overall client service and client experience

D. Network Reach

E. Credit capacity

F. Overall “Offering or Package”, no specific point stands out
Citi Trade Care: We Support You Before, During, and After Each Transaction

Our **Trade Advisory Team** has decades of industry experience
- Provide training on all Trade products
- Interpretations of UCP, ISBP and other ICC rules
- Help you with structuring of transactions
- Resolve tech questions, compliance issues and fraud prevention

**Trade Information Management System**, Citi’s power-house processing infrastructure uses scanning, document imaging and electronic workflow to provide a single repository for all transaction details, automating tasks for efficiency and error-free processing of 8+ million transactions per annum
- Continued investment ensures security, regulatory compliance and leading edge capabilities

If you have large volumes, our **Trade Services Professionals** manage your interaction with Citi’s Trade Operations
- Ensures day-to-day control and measurement of your processing
- Accessible via phone and email for all inquiries
- Proactive contact, combined with regular scorecard reporting

Our **Beneficiary Care Specialists** provide beneficiaries of Citi-advised L/Cs with access to our services
- Handle exporters’ concerns on pricing, credit availability, processing and related needs
- “Close the loop” on L/C transactions to ensure true end-to-end control for our issuing bank clients

**Citi’s Trade Advisor** provides the easiest, fastest service for L/C inquiries—24/7
- Date L/C advised, date amendment advised, original and current L/C balance, drawing amounts, receipt dates, checking dates
- No user name/password is required, and it is free of charge www.citidirect.com or CitiDirect BE Mobile
Polling Question #5

How would you characterize your Trade Services operations staff?

A. We are stable or expanding, and our personnel have CDCS qualifications

B. Aging and/or likely frustrated by the limited career paths available

C. We suffer from “key man risk” (reliance on the skills of one or a few individuals)
Polling Question #6

- What are the biggest challenges for your staff Operations/Product/Product Sales on the day to day?

A. Structuring complex deals, technical knowledge
B. Language skills
C. Enhancing client experience while having to reduce costs and increase profitability with decreasing Trade volumes
D. Compliance, KYC, and any other due diligence
The **Trade Information Management System** ("TRIMS") is Citi’s proprietary back office processing system for trade, deployed globally at our regional processing centers and the branches which they support.

- TRIMS uses scanning, document imaging, and electronic workflow to:
  - Link customer service windows and staff in city centers with centralized operations facilities
  - Link different operations centers for joint processing, load balancing, and contingency
  - Perform automated registration and routing for all structured messages
  - Provide a single repository for all incoming and outgoing activity (data and images)

CitiDirect® Online Banking is Citi’s proprietary Web-based software used by clients for:
- Issuance of commercial and standby L/Cs and amendments
- Incoming and outgoing collections
- Messaging and reporting related to the above

**Trade Advisor: Real-time trade tracking**
- The easiest, fastest service for routine L/C inquiries—available 24/7
- No user name or password is required, and it is completely free of charge
- Trade Advisor provides:
  - Date L/C advised, date amendment advised
  - Original and current L/C balance
  - Drawing amounts, receipt dates, checking dates, acceptance and maturity dates (if applicable), payment dates
  - Courier tracking information for dispatched documents
## Citi’s Trade Solutions

### Your Current Process

<table>
<thead>
<tr>
<th>Bank A</th>
<th>Bank B</th>
<th>Bank C</th>
</tr>
</thead>
<tbody>
<tr>
<td>MT 700</td>
<td>Direct to Citi Branch</td>
<td>MT 700</td>
</tr>
</tbody>
</table>

### Impacts of the current process:

- Need for a large number of SWIFT RMAs—increasingly difficult in the current regulatory environment
- Apart from the UCP guidelines, no assurance of timely service to be provided by the advising/ negotiating bank
- No control over charges coming back to the applicant
- No opportunity to share in the revenues generated from the L/C beneficiary
- Credit to support confirmation, discounting, and/or refinancing may not be available
- Customer service can be problematic

### Citi Channels

#### Direct to Citi Branch

<table>
<thead>
<tr>
<th>Bank A</th>
<th>Bank B</th>
<th>Bank C</th>
</tr>
</thead>
<tbody>
<tr>
<td>MT 700</td>
<td>Asia Hub (CITISGSGHUB)</td>
<td>Europe Hub (CITIIE2X)</td>
</tr>
</tbody>
</table>

#### Network Trade Hub

<table>
<thead>
<tr>
<th>Bank A</th>
<th>Bank B</th>
<th>Bank C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct to Citi Branch</td>
<td>Asia Hub (CITISGSGHUB)</td>
<td>Americas Hub (CITIUS33)</td>
</tr>
</tbody>
</table>

#### Processing Hub (L/C Relay)

<table>
<thead>
<tr>
<th>Bank A</th>
<th>Bank B</th>
<th>Bank C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct to Citi Branch</td>
<td>Window</td>
<td>Doc Exam</td>
</tr>
</tbody>
</table>

### Benefits

- **Ease and simplicity**
- **Available rebates**
- **Single regional entry point and service window**
- Access to a broad spectrum of trade finance structures, funding, and technical support
- **Available rebates**
- **Reduction of operational risks and costs, while gaining more capacity**
- Complete support and SLAs for every step of the process
- Simplified servicing agreement
- Prompt, consistent document examinations
- Rebates maximize the return on import L/Cs

### Asian Coverage of Citi Windows: Hong Kong, Shanghai, Kuala Lumpur
Case Studies
Case Study: Citi Branch

Ease and simplicity, combined with the monetization of flows

The Challenge

- An Indian correspondent has an annual flow of 500+ L/C issuances to the US
- They want to achieve the highest possible revenue sharing on these transactions, while ensuring top quality service for their applicants
- Citi received 9.3% of all MT 700’s into the US in 2013
- Our volumes grew 13% last year against a decline of 6% for the total corridor

The Solution

- We offered the issuing bank aggressive rebates on our advising and negotiation fees, with confirmations available as required
- Beneficiary care support will boost the drawing capture rate to as much as 80%, yielding excellent returns

The Results

- Projections are for yearly commission sharing in the 6 figure range
- TSPs are monitoring the transaction flow and providing special reporting

Note: L/C clausing is used to encourage the presentation of drawing documents at Citi’s counters:
- “Available with Citibank, N.A. [Branch]”, or
- “Negotiation is restricted to Citibank, N.A. [Branch]”, or
- “Please forward all documents to Citibank, N.A. [Branch], who is holding special instructions regarding reimbursement and the disposal of documents presented under this credit. No documents are required to be sent directly to XXXXX by the beneficiary or the beneficiary’s bank. Any delays in payment which are caused by mis-routed documents as stipulated in this credit are not eligible for delayed payment claims”
## Case Study: Network Trade Hub

Utilizing a single processing hub to reach an entire region

<table>
<thead>
<tr>
<th>The Challenge</th>
<th>The Solution</th>
<th>The Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A correspondent in the Middle East has some L/C activity to Europe—not a huge volume, but usually at least several items per week&lt;br&gt;• They have few correspondents with close ties in the region beyond their main Euro clearing bank&lt;br&gt;• Some of the drawing documents under these L/Cs will contain information in French, German, Italian, etc.—and their trade staff does not have such language skills&lt;br&gt;• It appears that the fees charged by the advising/negotiating banks in Europe are much higher than the norms in Asia, and may also follow different conventions</td>
<td>• This client needs to reach beneficiaries across Western Europe, get assistance with foreign language drawing documents, and have clarity on the L/C fees&lt;br&gt;• By utilizing CEP’s London/Dublin hub, they can access 17 countries in Western Europe under a single SWIFT BIC (Citi may employ a second advising bank in an individual country or advise directly to the beneficiary)&lt;br&gt;• All drawing documents are pointed to the window at Citi London&lt;br&gt;• Citi’s fees are the same across the region, and denominated in Euros&lt;br&gt;• Advising and negotiation rebates are available</td>
<td>• The bank enjoyed certainty in the applicable L/C fees for transactions to Europe&lt;br&gt;• It was able to leverage Citi’s entire network of European correspondents&lt;br&gt;• The fees earned from its applicants are supplemented by advising and negotiation rebates from Citi&lt;br&gt;• An Asia-based Trade Services Professional handles all inquiries on the L/Cs to Europe</td>
</tr>
</tbody>
</table>
## Case Study: Processing Hub

Creating capacity, efficiency, and revenue—while lowering operational risks

<table>
<thead>
<tr>
<th>The Challenge</th>
<th>The Solution</th>
</tr>
</thead>
</table>
| • A large Western European bank has thousands of LCs per year to Asia, many valued under $100,000  
• The volume of document presentations at peak periods can strain its processing capacity, resulting in examination errors  
• The applicants frequently inquire as to their transaction status | • Every such credit is directed to Citi’s L/C Relay service, and advised through one of our own branches or a designated bank of the exporter  
• Wording in the L/Cs directs the drawing documents back to Citi’s presentation windows in Hong Kong, Shanghai, or Kuala Lumpur (with compliance well over 90%)—from where they are imaged to our Penang processing center  
• Citi immediately performs a final doc exam and delivers the results via SWIFT and CitiDirect  
• The latter also provides self-service inquiry tools, backed up by dedicated Citi trade personnel |

<table>
<thead>
<tr>
<th>The Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Citi and its correspondent split a 7 figure annual revenue stream including charges for doc exams, discrepancies, reimbursements, funds transfers, and telecommunications</td>
</tr>
</tbody>
</table>

L/C Relay Workflow

- **Correspondent Bank** (L/C Issuing Bank)
- **Relaying Bank**
- **Importar**
- **Exportar**
- **Negotiating Bank** (Exporter’s Bank)
- **Alternative L/C Advice Routing**
- **Payment**
- **Documents**
- **L/C via SWIFT MT 700**
- **L/C via SWIFT MT 716**
- **SWIFT CITIBKKKXREI**
- **25 Best Practices in Trade Services 28 April 2015**
Thank you