

The age of electronic document preparation

Ken Whitworth of ABN Amro believes paperless trade transactions will soon be the norm as increased use of the internet fuels electronic document preparation

Electronic document preparation is set to dramatically increase as internet trading and internet letter of credit issuance and advising becomes more widespread.

Delivery systems

PC-based electronic delivery systems to initiate and advise letters of credit have been with us for some time. However, banks are now launching the next generation, all of which are internet based. These systems can be accessed remotely by subsidiaries or divisions worldwide and can assist treasurers where a decentralised trade structure is operated and their trade finance is conducted at subsidiary or divisional level. The subsidiary or division can continue to use the system in the normal course of business, but the group treasurer can download reports online that give:

- payables and receivables maturity profiles;
- foreign currencies used;
- country, bank and customer exposure;
- facility usage; and
- information on subsidiaries or divisions, for example, are they adhering to group policy on credit and payment terms, risk management.

As these computerised delivery systems developed so did the bells and whistles. Interfaces between the firm's sales and purchase ledgers, often via a freight forwarder, into the trade system have now become commonplace. The electronic transmission of basic purchase order data to the bank is now available, so the bank can formulate and generate the letter of credit. Internet delivery channels will speed up this process offering the ability for group companies worldwide to access the same internet channel, thereby increasing speed of letter of credit production and reducing facilities needed at subsidiary level.

The growth of internet usage will accelerate this process and development and Increased usage of systems such as Bolero.net will assist in the arrival of paperless trade transactions

Shipping documents

The increasingly widespread use of electronic trade delivery systems has gone hand in hand with the development of outsourcing of preparation of shipping documents. A number of exporters traditionally use freight forwarders as outsourcing companies for preparation of invoices, bills of lading, and the like. This process has become automated over the past few years with the electronic transmission of data. Increasingly, banks are offering the same facility, as part of their trade services portfolio, by using special document preparation companies.

Basic sales order data can be electronically transmitted to the outsourcing company by an exporter, and letter of credit details sent electronically by either the advising bank or exporter. The required documents can then be produced and sent to the bank. This last leg of the process is where new internet networks such as Bolero.net will render the manual presentation of documents obsolete. However, until these systems are fully operational, manual presentation of documents is still required.

But that is not the end of the electronic

process. Details of the presentation can be accessed by the electronic trade system and, when paid, the data can be interfaced directly into the sales order ledger from the electronic trade system. This process can also be applied to the presentation of documents as part of a documentary collection, as well as under letters of credit.

This electronic transmission of data via the internet will allow companies with de-centralised trade operations to have documents using just one site. There are obvious cost savings here and by using one bank to provide trade services the company can make the best use of its buying power.

The growth of internet usage will accelerate this process and development and increased usage of systems such as Bolero.net will greatly assist in the arrival of the paperless trade transaction.

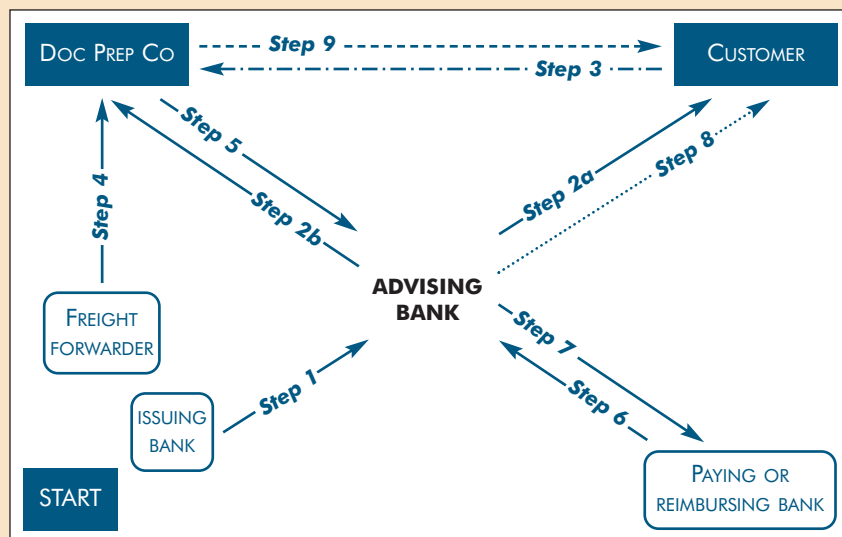
Essential research

Information, in any environment, is the tool that enables key decisions to be made. The more readily available, the more accurate and the more up to date the information, the easier – theoretically – it should be to take key decisions. The need for such information is key in the world of international trade where increasingly more foreign markets are being accessed. Trade has always been about mitigating the risks associated with trading with different parties, countries, goods and instruments. For an exporter in the short term trade market this means understanding the best way to trade with a counter party to ensure the transaction is completed successfully and payment is received. Typically, an exporter can look to trading on open account, on a collection basis, against a letter of credit or on advance payment terms.

The terms an exporter will trade under vary depending on factors such as relationship with the counter party, country of residence of the counter party, goods

FIGURE 1

Banking and documentation process



- Step 1.** Issuing bank sends letter of credit to advising bank. The process can be initiated by letters of credit advised by any bank as long as the letters of credit are freely negotiable.
- Step 2.** After reviewing the letter of credit for workability, advising bank advises the exporter of receipt of the letter of credit. For letters of credit advised by another bank, the exporter reviews the letter of credit and judges whether it is acceptable and freely negotiable.
- Step 3.** If the letter of credit qualifies, the exporter forwards either the original or a copy of the letter of credit and commercial invoice information to the document preparation company. This company can provide a suggested format for transferring information to them. If the letter of credit was advised by another bank, the document preparation company will share a copy of the letter of credit with advising bank for a review of its workability.
- Step 4.** The document preparation company contacts the exporter to retrieve the freight forwarder's contact name and number and provides pro forma bill of lading or airway bill information to the freight forwarder. After shipment is made, the document preparation company creates the airway bill or arranges to receive the bill of lading from the freight forwarder. At this time, they can receive any changes to the invoice information from the exporter.
- Step 5.** The document preparation firm prepares all necessary documents within 24 hours of receipt of necessary data and arranges to receive third-party documents (such as certificates of origin) and presents documents to advising bank for negotiation on the same day the documents are complete.
- Step 6.** The advising bank examines the documents within 24 hours of receipt. In the case of a date or amount discrepancies, the bank contacts the exporter for instructions. On the same day, it either claims reimbursement or sends the documentation on a collection basis to the restricted, confirming or paying bank, as appropriate.
- Step 7.** The bank will follow up daily with the reimbursing or paying bank until payment is collected.
- Step 8.** Immediately upon receipt of funds, the bank pays the exporter based on their reimbursement instructions.
- Step 9.** The document preparation company provides (1) a daily activity report, (2) a weekly comprehensive status report, (3) a letter of credit expiring report, and (4) a monthly activity summary report by the second business day. ■

being shipped. It is the ability to decide how to trade that is a key decision and one which can be made using export market research, thereby giving the exporter the comfort that, provided they have done their homework, the transaction will be completed successfully.

Export market research providers

Export market research can be found in various forms. In the past the information exporters have relied upon has taken a number of forms such as financial papers, trade publications, export agencies, Chambers of Commerce, credit insurance agencies and providers of finance. This has meant the need for dedicated time to trawl through documentation or make contact with the appropriate people so the exporter understands which procedures to follow when trading with a foreign party.

The explosion of e-commerce is significantly impacting the way trade is being transacted – this can be seen in areas such as electronic document preparation. But, in addition to technology assisting in the processing of transactions, the technology boom is also assisting exporters by making export market research via the internet.

The internet is now a source of much export market research. It gives the exporter the opportunity to access much needed information via a single source. Exporters can access detailed country information such as political background and stability details, information on local regulations, details on insurance of cargo, industry information, how to settle transactions and how to finance transactions.

This means exporters can now base decisions on a greater background of market information. This should give exporters the confidence to break into new markets knowing they are able to base their financing decisions on reliable information from the experts.

The ability to be able to access key information from a single point such as the internet is yet another way companies can operate more efficiently and ultimately be more competitive. ■

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