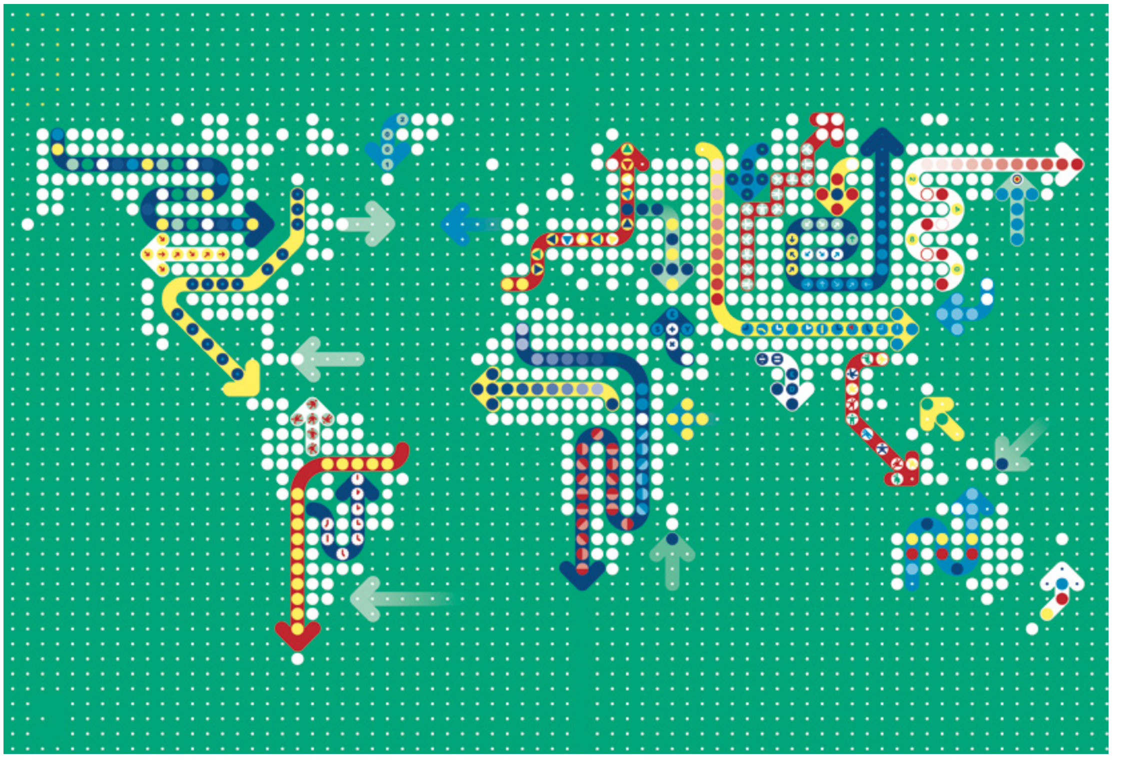
OILING THE WHEELS

Trade finance options are growing and so is the availability of software tools to automate these processes, says Lesley Meall



Ask a treasurer for their perspectives on trade finance and you can end up with more questions than answers. "Do you mean traditional trade finance or credit finance?" asks one, while another echoes this question with: "Are you talking about transactional trade finance instruments such as letters of credit [LCs] or supply chain finance [SCF] and invoice discounting?" Then along comes: "I see invoice and accounts payable processing as wholly separate from the more complex cross-border trade finance transactions, don't other treasurers?" Like many questions, the answer depends on who is being asked – and where they are being asked.

Apparently, the UK and the US aren't just separated by a common language. "In the UK, many large organisations see corporate treasury as quite distinct from the operating trading flows of the business. In the US, there is more overlap," says Karlien Porré, a director in the treasury advisory team at Deloitte. While Chris Bozek, global head of trade and supply chain products at Bank of America Merrill Lynch, suggests: "The argument for taking an integrated approach to treasury and trade has grown stronger as a number of trends within the market have combined to make the holistic approach more attractive."

He cites the shift away from LCs towards open account trade and the increased focus on counterparty risk and cash flow. "The lines between treasury and trade are blurring through the lens of a combined working capital conversation," says Bozek. Porré does see some UK treasurers getting more involved in the financial control and trade flow areas, for working capital optimisation, but they tend to take a leadership role rather than a hands-on management role. And although Deloitte has been involved in projects where treasury and procurement are working together to solve specific business problems, she says this is not a "marked trend".

The technology triangle

One definitive trend is the increasing importance of technology – whether you are focusing on traditional trade finance, exploring finance for the supply chain or considering a combined approach to treasury and trade (for a project or for something more far-reaching). "As the number of tools in the trade finance box is expanding, so are the automation options," says Sanjay Bibekar, treasury technology lead at PwC. This can be a mixed blessing, and wading through the available options (see top box, opposite) may feel more like a visit to the Bermuda Triangle than a metaphorical walk on the beach.

Many types of software can be used to automate various aspects of trade finance. There are bank-specific services, such as HSBC's Internet Trade Services and JPMorgan's Trade Channel platform. Then there are multi-bank trade finance systems, such as Bolero and CGI Trade360. Treasury systems, such as Kyriba and

BELLIN tm5, integrate with multi-bank trade finance platforms. Meanwhile, Demica and PrimeRevenue provide multi-bank working capital solutions that include SCF, invoice discounting and factoring. Finally, providers of enterprise resource planning (ERP) systems, such as Oracle and SAP, also provide tools for managing trade finance and financial supply chain management.

Identifying which of these various possibilities might best meet your needs can be a long and complex process that is influenced by myriad factors. These include, but are not restricted to: the structure of your organisation, such as the number and geographic spread of operating units, and the complexity of its goods and services; the structure of the corporate treasury operation and its areas of responsibility; software applications that the organisation is currently using and the specialist functionality they offer; the number of banking relationships and proprietary bank systems in use; the sector in which you operate; and the volume of secured and unsecured transactions.

Long and winding road

Where you begin your journey depends on where you are today, but the direction of travel will also be influenced by where you want to be tomorrow. Do you want to unify trade finance and finance for the supply chain? Do you want to harmonise all of your trade finance processes worldwide for bank guarantees, parent company guarantees, LCs and open account transactions? Do you want one central (or hosted) repository for all of the associated data? Do you need integration with other systems, such as ERP, accounting and treasury? How much trade finance administration, data matching, deadline monitoring and communications do you want to automate?

Those who are about to set off down this long and winding road may appreciate some advice that could minimise complexity and costs. "If you have significant trade finance needs, some software is available free and many corporates can leverage their existing assets," says Bibekar – by adding specialised modules from their ERP or treasury software developer. "Meet the vendors and survey the market," he advises, as what's possible is evolving rapidly. Transactional trade finance may remain paper-based in many organisations, but this leaves plenty of room for improvement. As Bibekar adds: "Any process that relies on paper is inherently risky and error-prone. Electronic trade finance is more secure, and the transactions are faster and easier to manage."

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THE MULTI-BANK TRADE PLATFORM

When the world's third-largest reinsurance provider decided to automate trade finance, it started by surveying the market. "We searched a lot for appropriate solutions and we tested many," recalls Gerhard Lubitz, who heads the corporate finance and collateral management unit at reinsurance company Hannover Re. It eventually opted for a web-based trade finance platform from GlobalTrade.

This connects with multiple banks and multiple back office and trade finance systems, automates incoming and outgoing LCs, documentary credits and collections, plus SCF, and offers the option of custom-built systems – bringing all parties in a trade transaction together on a single electronic page. "We decided that the completeness of the @GlobalTrade platform was best for us," says Lubitz.

"The people at GlobalTrade understood our needs and requirements, and our requests for product enhancements were met fast and excellently," says Lubitz. After using the @GlobalTrade Guarantee Issuance System for two years to administer outgoing LCs, Hannover Re is planning to extend its use. "Now we are thinking about also using the module for incoming LCs," says Lubitz.

THE BANK PAYMENT OBLIGATION

At BP Chemicals, 50% of turnover is on secured terms and involves around 50 banks. "Parts of our business in Asia and Europe are continuously dealing with LCs," says David Vermylen, its global credit manager. Manually, this is slow and costly, so BP is trialling the automated Bank Payment Obligation (BPO), a SWIFT financial instrument that aims to combine the benefits of open account and the LC.

"It delivers risk mitigation like an LC. It's discountable, so it's a form of liquidity; it can be syndicated to more than one bank and we can do pre- and post-shipment finance," he says – and it's fast. "During the trial, we found that we could put a BPO in place in 20 minutes," says Vermylen. Hence, later in the shipping process than an LC. With a BPO open for fewer days than an LC, there can be lower confirming charges for the seller and lower mitigation charges for the buyer.

But by talking to its customers during the trial, BP also discovered that the financial instrument that has the most significant impact on customs clearance times (and their satisfaction) is the Bill of Lading. So, there are big benefits to automating the administration of this, too, as Vermylen says: "Then you can just shoot these things to the customer, all digital and all certified."