

# Staying relevant in supply chain finance

Steven Starace, vice-president, US Banking and Investments, CGI, asks how banks can move beyond letters of credit, and maintain a foothold in supply chain finance.

In modern times, as countries' economies became more tightly interconnected, world trade has flourished. Between 1990 and 2005, it grew at a 6% annual pace, double the rate of consolidated global GDP. Meanwhile, the trading of goods has become much more complex. Consequently, their supply chains are an extension of their core enterprise and they've become more challenging to manage. How have financial institutions responded to rapid and sustained growth in world trade and greater sophistication of global supply chains? Not well. According to the 2008 edition of the World Payments Report, bankers' traditional trade finance products "have failed to evolve with the changing face of global trade".

**Out: Letters of Credit**  
The banking industry's traditional products, such as letters of credit, are in long-term decline. In 2005, only 20% of cross-border trade relied on banks for letters of credit and documentary collections. To build relationships based on trust, trading partners now use open account terms and they look for solutions to optimise their working capital. As a result, writes Gartner's Douglas McKibben in 'Trade Finance Must Change' (December 2008), is "a major disconnect between banks and their commercial customers when it comes to the subject of trade services".

**In: Supply Chain Finance**  
Buyers and sellers would like to see a broadening set of flexible solutions to support a "frictionless" supply chain and reduce working capital. These solutions can encompass key financial activities across a customer's supply chain, including:

- Purchase order tracking, invoice matching and document management
- Bank-assisted open account
- Open account payments initiated by instructions from the buyer
- Export/seller finance

• Buyer-side finance  
By incorporating these services into their offerings, trade banks can be poised to assume a greater role in their customers' supply chains. Hampered by older, inflexible technologies and processes, few banks, however, have the ability to plug into their customers' quickly evolving supply chain strategies. It's not uncommon for international banks to have multiple trade systems, each with differing functional capabilities, operating around the world. Faced with declining volumes in the products served by these systems, banks are understandably reluctant to invest more capital in system upgrades or new trade finance initiatives.

**Needed: An Integrated Global Platform**  
Clearly, the role of bankers in global trade has been marginalised. How can banks regain their relevance? In order to move beyond traditional documentary credit to open account finance, it is imperative to integrate information flow across the supply chain to provide greater visibility for customers. And by replacing stand-alone trade systems with a common, integrated global platform, banks can manage supply chain finance as a single customer-centric business allowing better reporting and connectivity with client accounting and ERP systems, regardless of the client's location. Banks can once again become relevant in the trade finance of their clients by offering capabilities that match their clients global supply chain financing needs.

**How to Get There**  
How can an integrated global platform be delivered cost-effectively, especially in the current environment? The answer lies in rethinking the service delivery model and specifically looking at a Software-as-a-Service (SaaS) model. SaaS is an approach that enables consumers of technology (such as banks)

to participate in a system's benefits without the burdens of provisioning, owning and operating the technology. It provides a sound and secure mechanism for banks to circumvent the high costs of internal development or the acquisition and implementation of vendor software. If done right, SaaS can be used effectively for large global banks as well as smaller banks. Using SaaS, the bank runs the supply chain finance business as it sees fit, but gets substantial behind-the-scenes

**Proponix360 helps Bank of Montreal win more business**

"CGI and Proponix360 deliver market leading capabilities on a quarterly schedule, providing us with state-of-the-art technologies. This is a definite advantage both in winning new business and in meeting our clients' needs and expectations. For example, in competition with much larger banks, we were awarded a mandate by a top 100 retailer. Company executives told us that superior technology was a major factor in their decision."

"Proponix360 has also helped us win in-sourcing business, a new initiative for Bank of Montreal on the trade side. The rich functionality of Proponix360, combined with our business services, have allowed us to provide a value proposition that enhances a bank's overall business model and provides a competitive advantage in the marketplace. This model is a powerful solution for banks struggling to keep pace with the increased level of technology investment required to remain competitive."

*Sara Joyce, executive managing director and head of international financial institutions and trade finance, Bank of Montreal Capital Markets*

support to make it work. The bank's SaaS provider delivers a customised solution consisting of web-based software, infrastructure and support resources. At CGI, we use a four-tier model to deliver services that best fit client needs. These include technology management (Tier 1), application maintenance and support (Tier 2), system integration and development (Tier 3) and business process management (Tier 4). To be competitive, an IT outsourcing strategy that encompasses Tiers 1 through 3 is the best approach. Why? With this delivery approach, the bank replaces a huge cost burden with predictable IT operating costs and better capabilities. The IT provider assumes responsibility for ongoing 24x7 maintenance, data storage, security, product development, upgrades and implementation.

**Australia and New Zealand Banking Group uses one global trade platform with end-to-end capabilities**

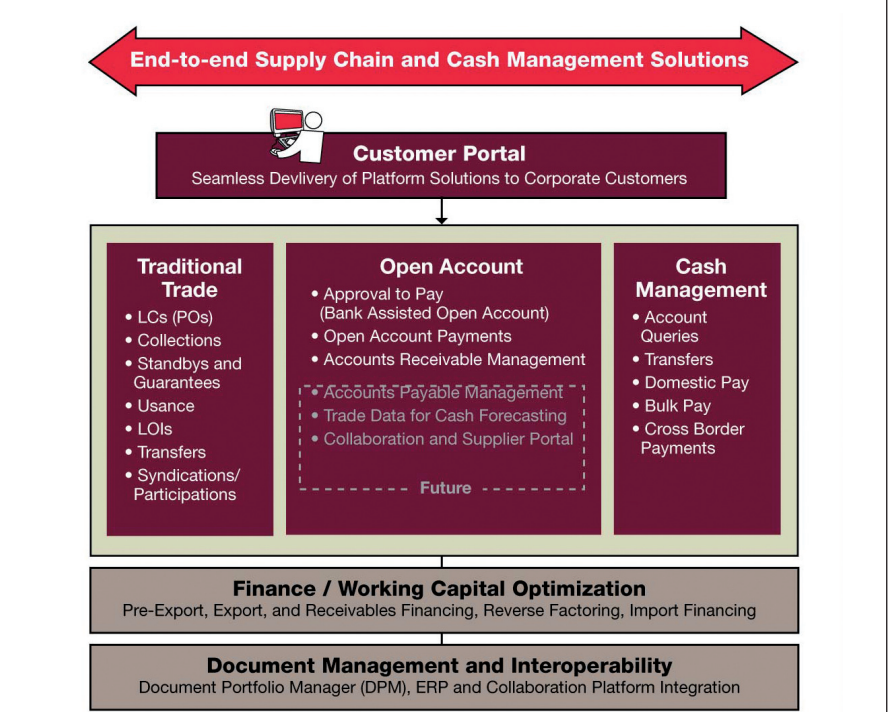
"As a bank that has built a reputation for expertise in global trade, we rely on CGI's Proponix360. It gives us a single global platform that serves us well all around the world. Few providers (if any) and /or bank's can match the comprehensive end-to-end global trade and supply chain capabilities that we offer the marketplace with the Proponix360 platform."

"As a bundled proposition (including front-end, back-end, imaging, workflow, database, global instance, hosting etc.) it is far better than anything I've seen in my prior experience. With it, we have a global trade platform with all the capabilities we need to tap new markets and grow revenues. We can immediately apply upgrades universally around the globe without disruption."

*Stephen Bell, Global Head of Product Trade and Supply Chain, ANZ*

**Other Banks Are Already 'There'**  
Easier said than done? The approach already exists and CGI has found that it's gaining traction with trade banks seeking greater competitiveness. CGI offers Proponix360™, a web-based, customisable service delivered via SaaS. It is a strategic platform with end-to-end applications addressing traditional trade, supply chain, and cash management

of trade banking, while increasing operational efficiency by 30% or more. Proponix360 users can opt to implement the appropriate mix of functional capabilities in any order. The bank has full control over the services it wants to offer, as well as the pace of rolling out new capabilities. And, because Proponix360 is an integrated platform, the new features can be launched in all of a bank's markets simultaneously.



functions. A customisable portal ensures easy integration with clients' systems. Proponix360 delivers all the software, infrastructure, and support resources necessary to power a bank's global trade business. With Proponix360, any bank struggling with silo-like trade systems can quickly and adeptly move to a broad, customisable and integrated offering to support its customers' entire supply chains. Proponix360 also fully supports in-sourcing to drive new revenue streams and leverage a global bank's processing scale. Proponix360's extensive capabilities enable a bank to move into the future

**Conclusion**  
Think differently about the way to deliver IT effectively to support your global trade business. In today's interconnected world, successful global banks offer superior technology that delivers efficiency, interoperability, sustainability and affordability. Proponix360 provides a solid foundation for success building a truly integrated global trade business serving supply chain partners around the world.

