

Busy in Boston



We sent our supply chain and technology editor, Justin Pugsley, over to Boston to pick up the latest news and feeling at Sibos this year – Swift’s annual meeting. Supply chain finance (SCF) is stepping up a gear with a host of agreements and activity noted.

As it turns out the theme for this year’s Sibos conference – ‘gaining momentum’ – was a particularly apt one. Reports from exhibitors suggest that the topic of supply chain finance (SCF) was prominent in the minds of many delegates. However, there is still a certain amount of confusion in the marketplace – among many banks and corporates – as to exactly what SCF is. Questions about the subject ranged from how should it be implemented? How much does it cost? How to develop products around it and most importantly how to make money from it. For corporates, the questions are just as compelling: does this really help me optimise my capital, lower costs in my supply chain, and cut out expensive letters of credit?

What’s the difference?

Of course such questions were making the rounds at previous Sibos gatherings. The difference this time is that there is a growing urgency to find answers.

“I have two observations: trade seems to be getting more visibility and play than in previous conferences,” explains Bruce Proctor, senior vice-president, global trade services head, with JPMorgan Chase. “I

sense a lot more interest. There are more discussions, and meetings are much more



Potter at Barclays: Thinking of Sepa

focused.” Providing satisfying answers for corporates is more straightforward. As various pieces of research from the likes of Aberdeen Group have shown, industry leaders tend to use it and do so with a positive impact to their balance sheets and supplier costs. For banks, discovering a viable business model around SCF and open account is

proving to be more challenging. However, with corporates increasingly finding that SCF is good for their business, banks of all sizes are under greater pressure than ever to respond with solutions.

“Certainly SCF is of great interest to us and we’ve come along to do some fact finding,” says a source from a large North American company who asks to remain anonymous.

So how will it all pan out? The thinking among many bankers who were approached at Sibos is that salvation lies in scale and technology with the costs of implementing the latter necessitating the former. It’s quite conceivable that it will come down to a cluster of dedicated trade services banks offering a full service infrastructure for all the other banks.

The outsourcers would include tier two and three players and in some cases global banks, for which trade finance is not a major focus of their business.

A potential spin-off from corporates ditching letters of credit to do open account is to insource the processing of their trade documentation.

Indeed, the processes surrounding international trade seem to grow ever more bureaucratic and cumbersome by the year. And failure to comply with complex regulations can land executives with hefty fines, or worse in jail.

There are also a whole host of technology providers willing and able to provide products for banks, including hosted solutions. Indeed, this year saw plenty of new product releases and upgrades. The technology is certainly getting better and the investment is going in. And then to complicate matters further, there is a whole new generation of SCF players.

These include EZD Global, PrimeRevenue, Demica and Global Supply Chain Finance, just to mention some of them.

They bring technology platforms, some in combination with financing. Depending on their business models some are targeting banks, others corporates and some both.

Signing deals

However, despite SCF still very much being in an evolutionary phase, plenty of

deals were inked, partnerships forged and new products released at Sibos this year. For starters, **GTR's** readers voted for JPMorgan Chase to receive the award for 'most innovative and responsive trade services bank' for the third year in a row: a testament to JPMorgan Chase's commitment to pioneering SCF. In the run-up to Sibos, Barclays announced the launch of its new supplier finance service. The service allows parties in the supply chain to manage their working capital requirements and business processes more effectively. For example, the platform will enable buyers to better manage payment terms and enhance their days payables outstanding (DPO). Suppliers, on the other hand, can opt for accelerated payments. Barclays is offering a discounted early settlement of their trade receivables, reducing their days sales outstanding (DSO). All of which can be arranged through a secure web interface.

"Both buyers and suppliers will be able to benefit from the service. Suppliers are able to access competitive receivables finance through their inclusion within a buyer's supply chain programme, while buyers can enhance payment terms without adversely affecting their supplier relationships," says Angela Potter, head of Barclays International Trade and Cash Solutions. "The efficiency improvements should come at a welcome time for treasurers as they contemplate important changes in the payments arena such as Sepa (Single Euro Payments Area)."

Meanwhile, Wachovia launched its internet-based financial supply chain management platform, TradeXchange. This is a secure web-based messaging platform designed to provide greater visibility throughout the supply chain covering purchase order, delivery, through to invoice settlement.

"As one of the first banks in the world to initiate letters of credit over the internet, we continue to focus on innovation and technology – particularly relating to the evolution of the financial supply chain," explains Steven Nichols, managing director and head of global trade services at Wachovia's Global Financial Institutions and Trade Services division. He adds that trading partners and their

banks have to deal with an increasingly complex global trade environment. New challenges include the move towards open account transactions.

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"TradeXchange will facilitate this process by providing critical supply chain tools in a fully collaborative and real-time environment," he adds. Wachovia also deepened its relationship with partner LloydsTSB (see box).

Successful pilots

Citibank and Morgan Stanley announced they had successfully completed a pilot of SwiftNet Real-time Cash Reporting, which improves operational efficiency and helps reduce risk. For example, that will



Proctor at JPMorgan: Trade's taking more spotlight

mean that users can obtain balance and transactional information at every stage of the life-cycle instead of waiting until the end of the day.

"Banks are continually challenged to produce new products and services and real-time cash reporting is a growing requirement among clients searching

for a service provider," explains Eileen Dignen, managing director and head of global payments for financial institutions at Citibank Global Transaction Services. It's the kind of innovation that will certainly add to the attractiveness of SCF for corporates. In a separate development, Citibank signed up TD Banknorth to provide it with trade finance solutions. Citibank is to provide an Asian re-issuance processing service covering letters of credit to the region.

Technological leaders

Among the technology providers, Misy had plenty of news on product launches, partnerships and on gaining new customers (see profile on p98). Meanwhile, IT trade services vendor CGI successfully completed the implementation of an open account solution for BMO Capital Markets. It will enable the North American bank to bid more aggressively for customers with an enhanced trade services offering. However, the main item for the company is the partnership with Citibank, by some measures the biggest bank in the world. They have signed up to use CGI's Proponix solution, which has been growing rapidly in the marketplace. It has already been adopted by a wide range of banks including Union Bank, Bank of Montreal and ANZ.

"It will be used by Citi to market to financial institutions," says Gillian Williams, partner, marketing and sales trade services with CGI.

"So instead of using an in-house solution, they will use Proponix which is in-source ready and functionally rich." She explains that together with their low cost processing centres in Chennai and Mumbai they will be able to offer compelling solutions to their clients.

Showing the global breadth of Sibos, there was also a Jordanian solutions provider exhibiting. Yazan Goldstein, a corporate communications executive with ProgressSoft explains that they were keen on forming more relationships to penetrate deeper into the all important US market. "We have a very strong customer base throughout the Middle East," claims Goldstein. "But to gain headway in the US market we really need strong US partners." The company already has a partnership

arrangement with Hewlett Packard dating from 2005. The firm, founded in 1989, specialises in imaging technology to digitise traditional, paper-based processes. Indian-based Polaris Software Lab was displaying its trade services solution for banks. Its solution is a web-based, workflow-driven solution for processing trade finance instruments such as letters of credit, bills and collections, guarantees and trade loans.

In a demonstration the platform appeared relatively easy to use and flexible.

It can for example integrate with third party products. It is aimed at automating the complete lifecycle of the trade finance transaction.

Interestingly, Polaris did some work for Citibank a number of years ago to help it develop a trade services platform. The experience prompted the company to go out and develop its own proprietary solution for the market.

Citi holds a significant stake in Polaris, which came about several years ago by merging its OrbiTech subsidiary into the Indian company.

Polaris has partnerships with SAP, Oracle's e-Business suite, Microsoft and IBM among many other leading IT names. Elsewhere, China Systems' trade platform, Eximills Enterprise, was accredited with the coveted SwiftNet TSU Gold Label. In the meantime, PrimeRevenue, the SCF solutions provider, announced a few weeks before Sibos that it had signed up car maker Volvo to its platform. The Swedish automotive group will use the platform for its international supplier community. Nordea will provide the funding to Volvo's suppliers opting to sell their invoice through the PrimeRevenue platform.

Limited crunch

Another item up for discussion among many was the credit crunch. There was some debate over its impact on supply chain finance. Bankers approached by **GTR** say they were continuing to lend to their clients through their various SCF programmes and that the credit crunch had little impact on that particular line of



**Ahearn at Citi:
SCF as alternative funding**

business.

However, some bankers thought it could represent a setback if credit conditions were to worsen. For example, users may switch back to letters of credit for the extra comfort they provide during uncertain times. On the other hand it could drive SCF, especially for SMEs, which might find that getting credit through the normal

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channels suddenly becomes more difficult if not prohibitively expensive.

Indeed, John Ahearn, global head of trade services for financial institutions with Citibank, gave an in-depth analysis to a packed breakfast briefing. Such was the interest that it needed to be relocated to bigger premises. He noted that seven weeks after the Federal Reserve's interest rate cut, there had not been an improvement in conditions for short-term commercial credit. “Debt maturing in 270 days or less continued its biggest slump in seven years,” said Ahearn, commenting on

conditions at the time of the presentation.

Ahearn suggested that SCF could be an alternative source of funding for companies facing difficulties getting their commercial paper away.

“Trade products assist clients in optimising cash conversion cycles through minimising DSO and DIO and increasing DPO,” he explained.

Getting involved in open account platforms and introducing SCF products around that can give banks much greater visibility of their clients' supply chains. They gain better familiarity with the supply chain's geographic spread, inventory levels, agreement terms and the performance of the various parties. All this transparency can lead to more confident lending by the bank.

JPMorgan's Proctor says there is a real interest in moving towards more efficient means of financing. “We work with our customers' suppliers and give them an opportunity to fund their supply base at a lower rate than they could otherwise. This move will continue,” Proctor emphasises. “If the current situation really did get very tight and the supplier's bank was reluctant to lend to them, then SCF might be an ideal opportunity,” he adds. “Markets are deep and many of our clients have not been impacted by the credit crunch.”

For ABN Amro, the credit crunch coincided with the launch of a product designed to help banks optimise their own cash holdings. A case of perfect timing.

“We've launched an enhanced liquidity offering into the market this year for banks. It's derived from our award winning global corporate cash products and cash concentration products,” explains Mike Hampson, managing director, global head of financial institutions, transaction banking, ABN Amro. “We've signed up our first client for this offering at Sibos, which is an Indonesian bank.”

The product reflects the fact that most banks have multiple correspondent banking relationships. ABN Amro's offering will enable them to automatically check balances and sweep excesses to a central account. In other words it makes it easier

for them to manage their overall liquidity. "It helps address the credit crunch by collecting stranded liquidity throughout a bank's network," adds Hampson. "It focuses people on making the best of their resources."

Read between the lines

One item noticed by some delegates was the Royal Bank of Scotland's stand. It had green and yellow arrows pointing in the general direction of ABN Amro's stand with the slogan "the only way to go". Admittedly, the arrows weren't quite the shades of green and yellow which makes up the Dutch bank's logo. Was it a coincidence? Or a statement of confidence in the RBS-led consortium to buy ABN Amro? Whatever the motive, RBS and its partners did indeed get their prey soon after Sibos. For many, this year's Sibos was particularly productive. Many deals and partnerships were sealed along with a wide variety of SCF-related solutions launched. There was also much discussion about SCF and how to make it work better. Some have concluded that it will involve collaboration between different players each offering their expertise to build optimised SCF solutions.

The effects of the credit crunch were much discussed: will it or won't it drive SCF? The jury is still out on that one. At the time of writing, the markets were still labouring under the shadow of the crisis. If the situation improves it might see speedier adoption. A worsening of the crisis could as one banker puts it push people back to letters of credit. Although other bankers think that might spur adoption. However, deteriorating conditions, at worst, would only delay SCF rather than confine it to history.

Hopefully by the time of the next Sibos the crisis will be but a memory and speakers will be talking about how it helped banks and corporates realise the importance of capital optimisation.

Next year will no doubt be a showcase for more innovation and possibly a lot more deals as SCF goes from gaining momentum to going mainstream.

The banker's bank

Rather than compete for trade finance business from corporates worldwide, Wachovia Bank has quietly succeeded for 200 years as the bank behind the trade finance success of thousands of correspondents and financial institutions globally.

"Part of what makes Wachovia unique is this 'partner, not competitor' approach. While we are truly a global bank with over 40 overseas offices, we do not compete with local banks. As a result, banks around the world feel very comfortable outsourcing to us," says a spokesperson.

So although Wachovia has a presence across the globe, it does not have a retail network.

Today, this approach requires significant investment in technological resource to develop solutions for rapidly emerging areas such as supply chain finance. This makes sense given that supply chain finance is more than just about providing loans. There's all the technology behind that, which provides customised financing solutions, more transparency and fits funding more compactly around the supply chain.

It's this combination of technology and trade finance expertise which enables Wachovia to be a wholesaler of a variety of services to banks across the globe. Each of the deals is unique and involves different aspects of trade processing, back and front office systems. In terms of insourcing, it is a world leader with over 100 banks.

Lloyds link-up

The Charlotte-based bank also holds a long-standing relationship with the UK's Lloyds TSB. At the recent Sibos gathering, the two announced a deepening of their relationship. Lloyds TSB will outsource its trade back office processing to Wachovia Bank's Hong

Kong hub and capitalise on the latter's undoubted expertise and economies of scale.

However, there's more to the deal than just reducing costs, as Paul Baker, managing director, group operations, Lloyds TSB, explains. "We were looking for a solution to support our growth strategy in trade, a partner whom we could work with using our existing strengths such as our customer relationships. The ultimate benefactors are our clients."

Indeed, Lloyds TSB's trade services business is reported to be growing at 20%. Growth is a good problem, but presents a challenge of scaling while maintaining strong levels of customer service.

Outsourcing its trade back office processing enables Lloyds to focus on its client-facing work. Meanwhile, Wachovia provides scalability and continuously-improved technological capabilities to enable Lloyds to respond to growth.

"In the outsourcing space we are a community of banks in trade services. If on our own we all had to do our own back office that would mean you would have to multiply that expense across nearly a 100 different banks. You're talking a lot of money," adds Bill Fitzgerald, managing director, corporate and investment banking technology, at Wachovia. "Everybody benefits from those economies of scale."

As the trade services segment becomes more competitive and more demanding, in terms of skills and investment, it makes more sense for banks to examine their businesses for opportunities to take advantage of economies of scale from a technological perspective – either engaging a technological partner, white labelling solutions from a technological partner or outsourcing.