

Technology and Trade Finance: The Future is Now

J.P.Morgan

TODAY'S INTERNATIONAL TRADE ENVIRONMENT – once dominated by paper-based, labor-intensive documentary transactions – is fiercely complex. Companies deal with multiple trading partners, cross-border networks and new, overlapping regulatory regimes. Trade flows are constantly changing, growing rapidly and becoming increasingly volatile as they do so.

Against this backdrop, global companies are increasing their demand for simplicity and efficiency in their trade finance operations. That's why they want to get away from LCs – from their onerous documentation requirements and processing delays. But these companies also realize they need some level of risk mitigation. Banks need to devise ways to meet these customer demands or they risk losing their business. Fortunately, thanks to technology, solutions are here.

BPO – the game changer

One answer is the Bank Payment Obligation (BPO) and it combines the risk mitigation and liquidity of an LC with the cost benefits and operational efficiencies of trading in Open Account.

Introduced by SWIFT in 2009, the BPO is a financial instrument that requires the obligor bank to pay the exporter bank when data has been successfully matched within SWIFT's Trade Services Utility (TSU). TSU is a bank-to-bank platform on which banks can exchange data extracted from a company's trade-related shipping documentation – for instance, purchase orders, commercial invoices, insurance and transport documents – and match data terms.

A BPO is similar to an LC, but it deals with electronically exchanged data rather than documents. A bank can issue a BPO directly to another bank or assume the obligation of another bank's BPO. Rather than presenting physical shipping documents, the parties to the trade transaction establish a baseline of key data points that could also be found in an LC and match those data points. BPO does not eliminate the need for paper entirely – shipping documents still need to circulate outside banking channels – but it is a very significant development in the history of trade banking.

BPOs streamline a buyer's internal processes as well as reducing its credit line utilization, thanks to increased visibility into the payment process and speed of transaction processing. For sellers, BPO's electronic matching of key trade document elements reduces transaction discrepancies that can slow receipt of payments.

For these reasons, global companies and their banks are showing an increased interest in BPO. Banks in China have already adopted the TSU platform. Brazilian mining companies and Indian steel manufacturers involved in large China trade flows are prime candidates to become early corporate adopters.

Currently, in order to make use of BPO capability, both banks involved in a company's trade transaction must be TSU members. In April 2013, the International Chamber of Commerce (ICC) approved the Uniform Rules for Bank Payment Obligations, similar to the standards contained in the UCP 600. International standards should considerably ease the adoption process for banks and their corporate customers, and make BPO a viable trade processing option.

More pain relief: SWIFT Trade for Corporates

More tools to meet corporate customer demands for transaction speed and improved efficiency are under development. One example of this is SWIFT Trade for Corporates. Companies have traditionally maintained many different banking relationships around the world due to their need for import and export LCs, Standby LCs and performance bonds to support trade flows and financial obligations. As a result, it is common for a corporation to have multiple access platforms representing each bank with which it does business. These companies need a standardized messaging process that

allows streamlined banking relationships and a single repository from which it can get a total global view of its exposures. This would stand in sharp contrast to what most companies do today – download the information and consolidate it manually

In response to this need, a handful of leading global banks, including J.P. Morgan, have worked collaboratively with SWIFT on a capability known as SWIFT for Corporates, or SCORE, based on SWIFT's new MT 798 messaging program for ERP-compatible SWIFT members. MT 798 is a sort of electronic "envelope" for multiple SWIFT Trade message types. When a bank receives the MT 798, it executes the orders "wrapped" within, and returns the information back to the clients' systems so that they can track liabilities and balances from multiple banking providers. This allows corporate users to build a more robust, automated process, reduce reliance on multiple platforms, and accommodate scaled up volumes of activity.

Real time Trade: Portals and mobile transacting

A key component of successful international trade in today's economy is instant access to critical trade flow information. Trade Channel, J.P. Morgan's web-based global platform, helps clients gain visibility into the entire range of their trade activities — from purchase order to payment. The net effect of Trade Channel is improved efficiency, reduced expenses, less risk and a more streamlined trade-related payables and receivables process. For clients that are expanding internationally, the Trade Channel platform provides a portal through which they can fund and manage their trade activities end-to-end.

For more information, please contact your J.P. Morgan Global Trade representative or visit jpmorgan.com/trade.

Portals like Trade Channel are deployed to help manage cash flow and levels of counterparty risk, providing a holistic view of trade activities from a single point of access. The Trade Channel platform supports traditional trade finance instruments such as Import and Export Letters of Credit, Standby Letters of Credit, and Direct and Documentary Collections, as well as Open Account transactions with an automated Purchase Order capability. Users have the ability to customize trade-related workflows, view images of shipping documents, create reports, and securely submit inquiries and exchange information — anywhere, anytime. Besides English, Trade Channel's unique multilingual capabilities include Spanish, Portuguese and Simplified Chinese, with the addition of more languages planned for the future. Trade Channel enhancements have included a customized dashboard feature that allows users to create interactive charts from underlying data for trend analysis, and to access proprietary J.P. Morgan training and reference materials.

Trade Channel features and functionality are the result of research, discussion and partnership with J.P. Morgan's trade clients and provided in response to their most pressing concerns. Some its new features, particularly its multilanguage capabilities and the analytic and informational value-adds of the client dashboard, are unique industry offerings. They help clients respond more efficiently and effectively to the challenges of international trade.

The Future is now

Technology advances are in the process of revolutionizing the way we manage and finance global trade by allowing banks and corporate users alike to become more efficient, more global, and more precise. The playing field continues to evolve, and each day new challenges emerge spurred by expanding regulation, changing compliance requirements, and the ebbing and flowing of economic tides. Embracing solutions such as BPO and SWIFT for Corporates will help players across the trade finance value chain — buyers, sellers, and their banks — to build the kind of scalable, flexible, transparent network they will need to compete in the years ahead — regardless of what they future may bring.

ABOUT THE AUTHOR



Gerry Scalgione is the Regional Product Management Executive for J.P. Morgan's Global Trade unit. Based in Chicago, he specializes in the development of innovative, client-driven trade solutions that serve J.P. Morgan customers across the globe, including the firm's web-based product and service delivery platform, Trade Channel. Gerry previously managed J.P. Morgan's Global Trade and Logistics operations team. In his nearly 30-year career he has worked for multiple international banks in senior roles, supporting major corporate clients