

Should corporates turn

to multi-bank platforms?

The concept of multi-bank systems for trade finance has taken its time to gain traction in the market. Inevitably, banks have been keen to promote their own online trade finance portals to clients, rather than have to adopt a third party model. **Rebecca Spang** speaks to three global firms working with multi-bank solutions provider Bolero, and finds that attitudes are beginning to change.

Debate participants:

Maritta Kallio, manager, trade finance, global credit and customer finance, Nokia Corporation, Finland

Jarmo Nurmi, manager, cash management, group treasury,

Wartsila Corporation, Finland

Peter Gisler, group vice-president, head of export and trade finance, ABB, Switzerland

GTR: What are the business drivers behind your adoption of a multi-bank trade finance solution?

Kallio: We use letters of credit (LCs) globally and sales to emerging market countries are increasing. We have many factories delivering goods all over the world and volumes are very high. We didn't have any centralised LC database before, therefore the local sales offices were taking care of LCs. Then we noticed that we had a number of delays with LC payments, but we couldn't work out what the reasons were behind the delays.

We were beginning to see LCs as a payment instrument which did not serve us well. LC expertise is needed around the world. You need to be aware of ICC rules and make sure LCs adhere to them. You also need to carefully read through LCs and have a good level of expertise to make a delivery that meets with the terms and conditions.

This is all very manual and time-consuming. We also need to have in place a good database to be able to monitor all advised LCs, amendments and payments. A credit controller also needs a database to monitor valid standby LCs, to see what extensions are needed and understand the level of security we have.

Given the number of people working with LCs within Nokia, there is a need for a consolidated database. But this is not possible when we were dealing with many different banks operating on different systems. We actually calculated that if we can streamline our LC processes and receive payments just one or two days earlier, we can cut costs substantially. This is why we made the decision to join Bolero two years ago.

Nurmi: The main driver in adopting a multi-banking platform is that we didn't have any in-house trade finance platform in Wartsila before Bolero.

We do use a number of relationship banks for our trade finance needs, but our bank guarantee requests need to be made by

using fax as a communication method, as historically defined by our global guarantee issuance facility – which is a bilateral agreement in place with each bank that defines the ways of working and communication.

This is a standard document across all banks, but although we had a standardised document, we didn't have a modern way of communicating with them.

How the procedure used to work was when a Wartsila company wanted to issue a commercial guarantee it needed to place a request with the bank and the group

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treasury in Helsinki.

When the group treasury approved that request by sending a fax, the bank is entitled to issue a guarantee to the beneficiary, so we have an approval and monitoring role at group level – which essentially involves sending faxes back and forth.

If a bank wants to change the guarantee text before issuance, or a guarantee needs to be amended or extended, an approval from Wartsila's group treasury is needed, so there are a huge number of faxes being sent.

So it's time consuming and a little bit old-fashioned too. That is the main reason we wanted a solution that can handle these processing needs. But, we also need a solution that focuses on reporting and exposure management. We need to know which banks are being used the most, know our customers, the country risks, etc. Bolero can support us in this as well.

We decided to go for Bolero last year and began the rollouts at the beginning of this year – rolling the system out with companies with the most value and volume in the LC and guarantee business. We will then roll it out with other companies in due course and invite more banks to serve us through Bolero.

Gisler: Around one and a half years ago, we decided to optimise the process of



Maritta Kallio, Nokia Corporation

issuing, amending and releasing of bank guarantees.

We have approximately 35,000 individual bank guarantees outstanding across the ABB group and we have 150 different issuers/banks of bank guarantees.

We researched some providers of trade finance software, and decided to buy a standard system from the German software company DOS.

We used this solution to customise our own in-house system called Trade Finance Link. This application will be installed throughout the ABB group, and we will be able to manage bank guarantees from issue date to full release of guarantee.

We then chose Bolero as our communication channel. Trade Finance Link already provides an automatic interface to Bolero as a means of communication to our banks. We do not use Bolero as a platform or guarantee application management system – only as a carrier. This is an extremely important point to note.

GTR: What are the constraints of existing bank offerings?

Kallio: Existing bank solutions are one-bank solutions and they are all different so it is very difficult to consolidate any reports.

We also need to sign agreements with each bank and we need to liaise with many sales offices around the world. It is not feasible to find one LC from the system, we need to log into many systems.

A multi-bank solution can streamline these processes. All banks that join Bolero advise LCs and standby LCs in similar ways.

More old-fashioned ways of advising LCs involved faxing LCs. It was often hard to find correspondence related to advising LCs or making amendments to LCs.

With a multi-bank solution we can always find advised LCs and follow confirmations or amendments.

There are many major companies still dealing with LCs via fax or courier.

They then need to create a database, in Excel for example, to record the history of that LC transaction. But then what happens if a piece of correspondence is emailed to one person and that person is on holiday? With a multi-bank solution, we can give access rights to all those who need to follow LCs and everyone can find information on the system.

Nurmi: Nearly all the banks offer their own trade finance systems. Even though these internet portals have the same basic purpose as Bolero, they are

bank-centric and differ from one bank to another.

We were naturally offered these solutions but we wanted to have one system with one set of login credentials and uniform way of working – irrespective of banks. This would make it easier for local companies and for the group treasury.

The core concept of these platforms concerns a task of applying a guarantee, requesting an import LC, or advising or making export LC amendments. The less time it takes to sort out these details, the more time there is to do the important things such as making sure the guarantee is worded correctly to suit the purpose but at the same time protect us from potential unfair claims or misuses.

Gisler: Previously when dealing with banks, we were using paper-based communication. Everything was being managed by stand-alone systems like Excel spreadsheets, etc, and we had a lot of duplicated data in our systems. When we looked at the market for options, in terms of a multi-bank communication tool, there weren't any real alternatives to the Bolero option. Perhaps, there might be something in the future. Swift is apparently working on something.

Nurmi: I think there is clearly increased collaboration, even though banks now have to adopt systems corporates want to use, previously the emphasis was on banks developing their own systems.

Bolero, being a third party service provider, can learn from their customers and thereby incorporate features to the system that benefit both corporates and banks at the same time.

There is increased collaboration in-house as well. The Bolero platform not only acts as a communication channel between a corporate and a bank, but also acts as an in-house trade finance system that can be used as a data archive.

Indirect parties, such as a corporate's legal department, can have access to the system. If an unfair call is made by a beneficiary then the legal department can access the relevant guarantee information and can defend the company against unfair claims.

Gisler: Internally, we have had a lot of discussions about the relationship between the corporate and the bank. Many banks had not realised the requirements of the big corporates, as they want their client to use their own system.

Some big corporates have taken the initiative and are guiding the banks in a new direction.

We are proud that many banks followed our strategy and there has been mutual interest on both sides to get standardised communication for corporates and the banks.

“Many banks had not realised the requirements of the big corporates, as they want their client to use their own system.”



Peter Gisler, ABB

GTR: Does this represent a shift in the balance of power between banks and corporates or does this reflect increased collaboration?

Kallio: Banks have invested in their own systems, and want to promote these to customers.

However, now by working on multi-bank systems, it can be beneficial for both the bank and the corporate.

The location of the bank doesn't matter as much anymore as a bank can advise LCs via a web-based system from any location, and can do so quickly, efficiently and reliably. It is easier for customers to create reports and there is less need for that much manual follow-up with banks. I think this will increase collaboration and understanding between banks and corporates.

GTR: What other reasons are there why a bank should participate in a corporate's multi-bank trade finance programme?

Kallio: A multi-bank platform reduces manual work and unnecessary queries, because a corporate can follow advised LCs and amendments on the system and a corporate can create its own reports from the platform.

Nurmi: Certain banks might have a difficult time understanding why corporates will want a third-party system when they have their own system. When corporates explain the benefits the banks start to see that it might be beneficial to join as well.

There are certain clear benefits. Communication between corporate and bank has been standardised.



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There are also benefits when you view Wartsilla as a global group of companies. Usually a bank serves companies in close proximity to itself typically in the same country.

Now, via the Bolero system, banks can communicate with their existing Wartsilla companies and potentially provide their services to Wartsilla France or Wartsilla Indonesia through the same system as they will all work with the same forms and the same required information.

Gisler: It really depends on how a bank connects to a provider like Bolero. If a bank decides to have an interface with Bolero, there are a number of benefits. They receive data electronically, and they can better process data with their own back-office solutions, which makes the whole process more efficient. But there are other options for banks. They can work with Bolero via the internet, logging on to a secure platform, grab our guarantee orders from there and send us notification via a web interface. They can also partly integrate it into their back office which allows them to partly download the data. We also have banks we

work with that have a direct interface via Bolero into their back offices. From my perspective, banks need to have a multi-banking strategy when dealing with big corporates.

We piloted the Bolero system for six months, ending in March. ABB management then decided to go live with the whole system. We are currently in an implementation phase, which will take three years.

Generally speaking, since adopting Bolero, we have become leaner and faster, with fewer errors. But, we can not give an accurate answer on the success of the programme yet as it is relatively nascent. But a positive trend is developing.

GTR: To what extent does this reduce or eliminate some of the issues historically associated with traditional trade finance instruments?

Nurmi: Take the example of export LCs, these are often amended by our customer. The bank may decide not to give the money when documents are presented if there is even a minor error.

important given the financial turmoil. For instance, the efficient usage of bonding lines, is extremely important.

GTR: Would you like to see strategic commitment by the banking industry to a common corporate-bank trade finance channel based on the Bolero platform? Is it already beginning to happen?

Kallio: Banks are beginning to understand that international corporates need multi-bank platforms for trade finance instruments.

The system also provides a chance to streamline processes and reduce manual work for both the corporate and bank, and can increase the level of trust in the reliability of an LC as a payment instrument.

Nurmi: It may depend on the bank – some have already realised the need to have one channel system available and have made that investment choice. Then there are others that do not know which way to go and this can be problematic. If you want to use such a bank and they can't implement Bolero, you need to make guarantees in the traditional way through faxing. We shall not abandon a bank if they refuse to do Bolero with us, as we want to maintain the relationship due to more important business reasons. But we naturally do communicate the inconvenience caused by this to them and remain persistent in our demands. It may not always be about the banks' inability to understand customers' needs, they may not have the budget ready to implement the system right now due to the financial crisis.

Gisler: Banks have realised they have to provide some form of channel to make life easier for both corporates and banks. Standardised communication makes life easier for all. However, although electronic standardisation is a high priority for us, we still look at the whole package a bank offers us. In the current climate, securing credit lines at a reasonable pricing is still a high priority for us.

Also, from the bank perspective, costs relating to the implementation of Bolero are a reoccurring issue. Given the state of the global economy, some banks are unable to make a strong enough business case for multi-bank systems. **GTR**

“They may not have the budget ready to implement the system right now due to the financial crisis.”



Jarmo Nurmi, Wartsila Corporation

When LC advices and amendments are given through Bolero to a local company, it is far easier to keep records of the correct wording of the LC in the Bolero system. So, when the documentation people can prepare, for example, the bill of lading without any discrepancies, there is reduced time between the delivery of goods, invoicing and collection of funds. When LC amendments are done via faxing and emails and you don't have a system where you can store changes to trade instruments, it takes up plenty of time finding out what you need to change. But this is all now handled by Bolero.

Gisler: As the system is being used throughout the whole ABB group, we will have a real-time overview of the usage of our credit lines and transactions. Data is more structured and we will have better reporting capabilities. Presently these capabilities are extremely