The Bolero Multi-Bank Solution - Automation of Trade Finance Instruments

The trend of corporates implementing a multi-banking trade finance solution is being driven by a very compelling business case. So much so that a recent poll in the Corporate Treasurer magazine revealed that 60% of corporate treasurers consider it either important or very important for their organisation to be able to execute on multi-bank platforms.

Killen & Associates estimate that in the Fortune 500, over US$81 billion in working capital is locked up in the financial supply chain. After taking into account that around 20% of world trade is settled through Letters of Credit (LC), a highly secure but cumbersome trade instrument, it becomes clear that a significant proportion of this money is locked up specifically due to inefficiencies in the LC process.

Confronted with inefficiencies impacting both the top and bottom line, corporates are turning to automation to fix the problem. With respect to LCs, Guarantees/SBLCs however, this is regarded as a major challenge as they are perceived to be heavily paper based, very fragmented and labour intensive instruments. Frankly, most organisations have left them in the ‘too hard to achieve’ category and turned their attention elsewhere. However, the tightening of credit availability over the last few years combined with banks being forced to raise prices in response to increased capitalisation requirements, have brought these inefficient processes and instruments back into focus.

Due to an innovative, yet extremely simple solution, Bolero has opened the way to unlock real value in the application and management of Import LCs and Guarantees/SBLCs, the advising of Export LCs and Documentary Presentations for payment, under both LC and Open Account terms.

The degree to which the processes are automated will directly determine the degree to which visibility of credit lines can be integrated with the overall treasury position of a corporate, leading to reductions in working capital requirements. It will also determine the degree to which downstream processes such as Document Preparation can be automated, leading in turn to a reduced order to cash cycle.

Before understanding the benefits of implementing an award winning, cloud based trade finance solution, it is first necessary to understand the key issues with the current processes that are typically found in multi-national, multi-banked organisations.

Issues in trade finance caused by international multi-banking

- **Visibility and cash position**: When working across multiple bank products, portals and communication channels, it is virtually impossible to get a real-time, overall picture of a trade finance credit position. Corporations estimate that in such circumstances it can take between two and five working days to assemble all the information required to calculate a company wide position. By the time a figure has been calculated, it is already out of date with new advices having been received and amendments made to existing LCs. Similarly, releases and reductions to guarantees and standby LCs are applied retrospectively up to 90 days beyond the event date.
This overall lack of transparency means that most companies fund unnecessary working capital headroom because they simply don’t have a clear view of what’s in their financial supply chain at any given time.

Managing multiple banks and insurers individually can be time consuming and costly - particularly for companies processing high volumes of financial instruments.

- **Security**: LCs are credit instruments and as such highly security sensitive, increasingly so in today’s compliance climate. This is in stark contrast with some of the communication vehicles being used today, particularly when it comes to fax, paper, courier etc. Even in those places where security mechanisms are in place, they are likely to differ as per the infrastructure used, increasing again the overall cost of an already labour intensive process.

- **Compliance**: It is commonly accepted that the processing of LCs falls under the compliance requirements relative to operational control. This means that processes need to be documented, applied consistently and are fully auditable. Adequate controls need to be in place for credit application, approval and release processes. These controls should apply as equally in regional offices as they do in head office or central treasury. In addition, they need to reflect best practice and be in line with de facto regulation for LCs, i.e. the ICC UCP Rules. A manual, paper or spreadsheet driven process does not easily support these requirements.

- **Additional Bank Fees**: The impact of managing multiple credit lines and facilities, across a range of global locations and through multiple institutions, means that it is highly unlikely that optimal pricing for these facilities can be negotiated. Secondly, the challenge of managing credit lines and facilities in the absence of a single, real-time and consolidated view of exposure means that over-charging occurs through lines being held open for longer than necessary, release and reductions applied late and challenges in reconciling bank fees to statements.

- **Multiple infrastructures**: Corporates have multiple bank relationships to enable them to select products and services from the appropriate bank, relative to a particular instrument or market. However, this leads to corporates also having to maintain multiple communications channels with their
banks: from letters and faxes, through courier and messenger-delivered documents, to e-mails and electronic transmissions from proprietary e-banking portals.

The maintenance of multiple communication channels bears a direct cost of thousands of dollars that is much more significant than the presence of only one infrastructure. In addition, there is also a significant cost incurred by the need to train several staff members on each system, with a knock on impact of poor scalability and increased business continuity risk caused by silos of knowledge.

- **Multiple formats:** The LC Applications and Advices also come in a variety of different formats causing confusion over terminology and required information to complete. This often causes inconsistencies between documents, while delays and errors are introduced due to manual intervention and document re-keying.

The ICC estimate that between 50 and 60 per cent of the Letters of Credit presented to banks are rejected at the first time of presentation. This of course leads to further delays and can be a source of significant frustration, potentially leading to disputes between trading partners and banks due to inaccurate or missing data.

- **Integration with related business processes:** Even structured information is problematic if it comes from different sources. Unstructured information, or information on paper (e.g. fax) cannot be integrated with other business processes unless it is re-keyed. Examples include the calculation of treasury positions, the preparation of documents for negotiation of the LC and the integration of this data with such systems as ERP and Cash Management.

**The Solution: Bolero**

Improvement and automation of these processes is complex, because it requires buy-in and cooperation from both the Corporate and the Bank. In fact, this mutual co-operation is fundamental to the success of any such initiative because not only must it deliver efficiency and automation to the corporate, but it must also be designed to interoperate with the bank’s internal processes and systems in a manner which meets their strict need for compliance, security and independence.

Until now most e-commerce initiatives for financial trade services, such as Letters of Credit, have failed to provide a platform to handle this overall complexity. Typically these initiatives have been Bank centric solutions which have not provided for the automation and process integration needs of corporates. Moreover, due to the proprietary nature of many of these platforms, customers are expected to maintain multiple links with all their banking partners. Alternatively there have been corporate centric platforms and although they provide automation of parts of the LC process from the corporate side, they completely disregard or trivialize the need to integrate into the bank’s processes and back office systems leaving the corporate with a potentially valuable solution but no agreement from its banks to participate.

Now, however, there is a real alternative, one which balances the needs of both the corporate and the bank, ensuring that the barriers to adoption are removed for all parties.

Working in conjunction with the powerful online Bolero Exchange platform, Bolero provides the corporate with a full range of functionally rich trade finance applications. Simple to implement, browser-based, fast and efficient these Bolero Apps provide functions to apply for Import LCs/Guarantees, be advised of Export LCs and manage documentary collections across all banks, geographies and trading counterparties.
Bolero Apps and Bolero Exchange – A complete solution

Bolero has been designed from the ground up to overcome all of the previously highlighted issues inherent in managing an international, multi-party, multi-instrument trade finance process within a corporate (as illustrated below). Bolero goes beyond simply solving issues. The unique features of the Bolero Apps, the Bolero Exchange and a legally certain communication protocol deliver very compelling business drivers for its adoption.

The Bolero Solution

Bolero provides a single, consistent view of the current status of all trade instruments...

- **Visibility and cash position:** Bolero provides a single, consistent view of the current status of all trade instruments and lines. Regardless of geographic location, company division or financial institution (banks/insurers/bond issuers), all key information is made available (e.g. to central treasury) through the Bolero Apps dashboards. This information allows an organisation to accurately forecast forthcoming payments against LCs or apply real-time releases to Guarantees/Standby LCs. This complete transparency of inbound and outbound flows allows the finance or treasury teams to manage their traditional trade finance credit lines and headroom to much finer tolerances than was previously possible. This has immediate benefit to the corporate balance sheet, as well as simplifying basic cash management operations.

- **Security:** All information and data passed over Bolero is securely protected, from the point of entry to the receipt by counterparty. Unlike many of the proprietary solutions in this space, the Bolero Exchange has a number of unique features designed to protect the integrity of the data passing through it, from complex hashing routines to a PKI infrastructure to ensure the identity of all parties. The infrastructure is hosted in a state of the art, SSAE16 compliant data centre that is subject to constant scrutiny and security testing.

- **Compliance:** Bolero Apps have been designed to fit within the prescribed processes of the relevant international regulatory bodies – for example, ICC UCP 600 for Letters of Credit. This ensures a compliant environment from a functional perspective. As these functions are commonly available, all users of the system can operate only within the prescribed processes – regardless of location or operational division. Operational control is provided through the powerful authorisation and business rules framework that the Bolero Apps have built in. In addition to forcing specific workflow, all steps...
and actions are audited and logged and then made available for query through the management dashboards and reporting functionality present in all Bolero Apps.

- **Bank Fees:** By providing a common interface and access to financial institutions from across the globe, Bolero gives the corporate the ability to choose their financial providers on a purely commercial basis. Previously, the lack of visibility or access to an institution from a remote location/division or emerging market would mean that a corporate had a proliferation of local, in country relationships that had little strategic value. The consolidation of credit facilities and the ability to work to a common pricing structure results in improved margins for all parties.

Secondly, the Bolero Apps provide the corporate with tools to proactively manage and monitor their trade finance instruments, ensuring that lines are held open only where necessary, releases and reductions are applied at the earliest opportunity and all transactions are logged and searchable resulting in simplified bank fee reconciliation. As an example, corporate clients have seen aggregate reductions of tens of thousands of dollars for this on an annualised basis following their Bolero implementation.

- **Single infrastructures:** Bolero is a ‘cloud’ based solution, meaning that all the functionality is delivered as a service (Software as a Service: SAAS) model. In addition to providing a single mechanism to reach all counter-parties, there is also no requirement for the corporate to install, customise, host or integrate multiple components, dramatically reducing the cost and risk of implementation compared with traditional, in-house software.

The second major benefit of this hosted arrangement is that the corporate only requires an internet connection to communicate with the Bolero Exchange. This completely insulates them from any decision or preference their financial partner has in terms of communication channel or data format. The Bolero Exchange manages the complex process of reaching financial institutions by supporting multiple message formats and communication protocols. This ‘one to many’ approach means that the corporate can simply connect to Bolero and rely on the fact that the Bolero to bank element of communication is already in use by many other organisations, again reducing risk and complexity in the project.

Bolero has great experience and expertise in on-boarding counter-parties to the Bolero Exchange, regardless of whether they are a carrier or a major bank. Where this process is required, the corporate client can rely on Bolero to carry this out rather than having to try to on-board individual institutions themselves, something most organisations have little time or inclination to attempt once they have investigated the challenges to making this happen.

Finally, there are no restrictions or ‘lock ins’ with the Bolero infrastructure. Unlike bank centric infrastructure (i.e. SWIFT, who only allow corporate-to-bank communication) all of an organisation’s trading counterparties are able to communicate via Bolero. In practical terms this means that a corporate can apply for guarantees/bonds with insurers or surety issuers. This flexibility and transparency is one of the major reasons Bolero is the largest corporate trade finance network in operation today.

- **Single format:** As detailed above, Bolero operates on a ‘one to many’ basis. From a corporate perspective all data is entered and received in their Bolero Apps in a common format. Where data translation is necessary, Bolero provides the tools required invisibly within the system (for example translating LC Application data into SWIFT formats for delivery to a bank). This commonality of format...
goes beyond technical data structure – information is presented to the user in a consistent and clear business language. For example, a LC Applications and Advice message is consistent across all financial institutions and geographies. This has benefits when it comes to scaling operations, providing back up and support functions and rolling systems out into new territories or business divisions.

- **Integration with related business processes**: The consistency of data and information from trade finance counterparties ensures integration into 3rd party applications – e.g. Treasury Management Systems (TMS) or ERP is straightforward. Bolero provides tools to support integration and works closely with its partners to ensure that most major systems have integrated links and testing has been carried out. The ultimate goal is to remove the need for any re-keying of data or the creation of data silos within an organisation, something that is all too common when using disparate systems and paper processes.

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**Bolero Apps and Bolero Exchange – Feature Detail**

The introduction of structured, computer processable information helps to reduce the likelihood of rejection of Letters of Credit during the negotiation and settlement processes. An Automated LC Application means that computer readable information is introduced early in the transaction chain. Hence it is an excellent basis for the automatic creation of "downstream" documents such as the Issue of an LC. Likewise, a structured LC Advice can be used as the basis for the preparation of documents that will be used in the negotiation of the LC.

The streamlining of trade finance processes and the elimination of the inaccuracies and delays associated with manual entry play a key part in reducing the order-to-cash cycle.

**Bolero Apps Overview**

- **Bolero App – Import LC**: is the Bolero App that provides a modular, multi-banking service enabling corporates to apply for Import LC on the same platform, in standard formats, regardless of the identity of the Issuing Bank. As well as handling the applications, it also manages the notifications and amendment process from the bank(s). The same Bolero App also provides Standby Letter of Credit applicant functionality.

  The multi-bank nature of the Bolero App helps to bring all the information together relative to Import LCs and Stand-bys, which in turn enables the Corporates to establish the overall picture of outstanding instruments. As well as being visible within the Bolero App, this information is made available in standard formats for extract to 3rd party systems, for example Treasury Management Systems or BI tools.

  To ensure interoperability with other business processes and compliance with industry best practice, the Bolero App is designed to be fully interoperable and compliant with the ICC’s UCP 600 and eUCP 600 and with Swift’s Category 7 Standards.
• **Bolero App – Guarantee Applicant:** is the Bolero App that provides a modular, multi-banking service enabling corporates to apply for Guarantees and Standby LCs on the same platform in standard formats regardless of the identity of the Issuing Bank or Insurer/Bond Issuer. As well as handling the applications it also manages the notifications and amendment process from the issuing institution.

Of particular importance is the functionality that allows a corporate to track and manage releases and reductions against the balance of the guarantee, as efficiency in this area directly relates to the credit headroom a corporate can maintain and the charges it incurs for these instruments. As with all Bolero Apps, all information relating to the lifecycle of a particular instrument is made available within the dashboard or for extract to 3rd party systems.

All the major types of guarantees are catered for by the solution, including regionally specific types and functions. The Bolero Guarantee App has been designed with input from some of the most sophisticated and complex corporate users of Guarantees globally ensuring the functionality is robust, rich and very well tested.

• **Bolero App – Export LC Management:** is a multi-banking service enabling Corporates to manage the receipt of their Export LC Advices, on the same platform, in a standard format, regardless of the identity of the Advising Bank. It also addresses the amendments process and caters for all types of LCs including Standby LCs.

**Example of LC Advice from Bolero**

- Same format irrespective of Advising Bank
- Field Types clearly identifiable
- Swift codes and text
- Easy to understand
- Simple to cut and paste if required

The Bolero Export LC App is the first step in maximising working capital for seller/exporter organisations. Key to this is the function within the Bolero Export LC App known as the Operative Instrument (OI). The OI is a constantly updated, real-time view of the currently advised LC, including all amendments, whether accepted or rejected. All amendments are held in a file using the unique LC number ensuring that there is a complete sequential and chronological order of all changes to an LC. By having this up to date and consistent view of the LC it is possible to create a structured data extract for use in the preparation of documents, whether for internal or external use. These documents may include, but are not limited to; Shipping Instructions, Commercial Invoice, Bill of Lading or Inspection Certificate. As the information the Export LC contains is relied upon by many 3rd party systems and processes in the physical and financial...
supply chain, it’s critical therefore that this data is made available into a collaborative environment, simply, securely and on a timely basis. The Bolero Export LC App provides an organisation with the necessary tools to support this function. This feature is the backbone of Bolero’s ePresentation solution. Please speak to your Bolero representative for more information.

The Bolero Export LC App has been designed to specifically ensure that the management of advised LCs is done in a structured and consistent way. This ensures that all the downstream processes leading to final presentation can rely on the accuracy of the data within the LC, removing many of the issues of quality at source.

Like the Bolero Import/Applicant Apps, Bolero Export LC is also designed to be fully interoperable and compliant with the ICC’s UCP600, eUCP 600 and with Swift’s Category 7 Standards.

**The Bolero Exchange Platform**

Bolero was created as a neutral, trusted third party to operate an open platform enabling paperless trading between buyers, sellers, logistics providers, banks, agencies and regulatory authorities anywhere in the world, thereby delivering transaction visibility, predictability, speed, accuracy and security.

Central to all Bolero Applications such as Bolero Export LC or Bolero Guarantees App, is the Bolero Exchange platform which is the secure electronic messaging service that connects all parties. For example, the Advising Banks connected to Bolero Exchange, use it to send the LC Advices to the corporates. The Bolero Exchange is far more than a simple communication channel however. It also performs key functions that are vital to the successful operation of a fully electronic trading environment. These include:

**Security** - Bolero Exchange utilises state-of-the-art PKI-based security that provides the required identity management, non-repudiation of all transactions and transaction integrity. This centrally hosted infrastructure removes the requirement for organisations to implement their own PKI infrastructure, something normally regarded as a significant cost and compliance challenge.

In addition, the Bolero Exchange acts as a trusted third party and provides an audit trail of all the transactions going through it. As a Third Party, Bolero is not part of the transaction and does not keep the transaction data, as is the case elsewhere in the industry with central transaction databases that represent a single point of failure or risk. Bolero facilitates secure electronic communication and guides users through the transaction lifecycle with workflow-based user experiences. In the unlikely case of conflict, Bolero can produce a full audit trail of the transaction with the added benefit of it being “third party evidence”.

**Channel Management** – As stated earlier, one of the biggest barriers to a successful implementation of a multi-banking solution for a corporate is the ability to actually start transacting with their counterparties. The implementation of traditional software within the corporate firewall creates challenges when attempting to connect to multiple communication channels, protocols and formats, many of which require membership of closed user groups. This is why Bolero made the unique decision to insulate all parties (corporate or bank) from having to integrate with each other’s preferred communication channel and format. The Bolero Exchange performs the critical function of selecting the appropriate ‘route’ for each message between individual entities. In addition it provides the recipient with the ability for the message to be reformatted into any one of a number of industry standard formats – e.g. the regionally specific DTA format (Germany), SWIFT MT700 series or the newer, SWIFT MT798 format. At a stroke this removes the need for parties to concern themselves with making the right ‘strategic’ choice. A practical example of this is where an organisation wishes to apply for financial guarantees from banks and insurers. The two industries work on very different lines and support different communication channels. A Bolero corporate
client has this problem removed as the centrally hosted Bolero Exchange manages the connection and message exchange process regardless of whether the intended recipient is an insurer or bank. Bolero uniquely provides this multi-bank communication layer and has more than 70 banks currently live with one or more corporate multi-banked customers.

Message Management – Trade Finance messages often have significant commercial and financial importance due to their nature. Unlike many other communication channels, Bolero provides all parties with information about the message status as it flows through the solution. This allows users to receive acknowledgement of deliveries, alerts to non-delivery, warnings around inactivity related to a message and so on. In a business context this allows a corporate to monitor and enforce specific Service Level Agreements with their counter-parties, for example an issuing bank. As well as being available in real-time, this information is available at a later date for query or interrogation if a dispute should arise. The message management functionality of the Bolero Exchange works in close combination with the Bolero Rulebook – ensuring legal as well as technical message integrity.

Bolero Rulebook - All members of Bolero subscribe to the Bolero Rulebook. This contains the rules of engagement for all the participants to the system and ensures the legal enforceability of all dematerialised documents. The value of the Bolero Rulebook is in the predictability of the behaviour of the system and its participants and hence creates an excellent environment for compliance requirements relative to operational excellence. It follows the standard Bolero principle of a ‘one to many’ approach, removing the need for bi-lateral agreements to be created between entities. This multi-lateral approach significantly reduces the legal burden on corporates who wish to start transacting electronically with multiple counter parties. The Bolero rulebook applies across all legal jurisdictions and codes and is governed by the member administered Bolero Association.