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TRADE SERVICES 2003 IN REVIEW

*Since 2001, LC Monitor's first issue of the year has reviewed the main events in the industry in the previous twelve months. It provides a chance to reflect on past priorities and compare them with the challenges to be faced in the new year. ISBP, doc prep, and outsourcing are among the issues that have dominated the trade services industry in 2003. This year LCM's **Jacob Katsman** speaks with Wachovia's John McFadden and Chris Wilmot, HVB's Markus Wohlgeschaffen, and CGE&Y's Urs Kern about both the trends that developed in 2003 and what might be expected in 2004.*

John McFadden is Director, Trade Services Product Management and Development, for Wachovia Bank, in Charlotte, North Carolina. He has held a variety of positions in his 26-year career, all related to international banking.

Chris Wilmot is the London-based Managing Director of Institutional Sales for Wachovia Bank's global trade services business. His career in international corporate and correspondent banking spans 28 years.

Markus Wohlgeschaffen is Head of Trade & Payment Products for HVB Corporates & Markets. Wohlgeschaffen has been working in the trade finance sector for 18 years and was previously in charge of HVB's Trade Finance activities in Japan and Italy.



JOHN MCFADDEN



MARKUS WOHLGESCHAFFEN

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URS PETER KERN

Urs Peter Kern is Managing Consultant in the Global Financial Services division of the management and IT consultancy CAP GEMINI ERNST & YOUNG Germany. He has 20 years of professional experience in banking and consultancy, and has spent most of his career in international business.

LCM

What issues have dominated your agenda in 2003 and what do you think the priorities will be in 2004?

HVB

In 2003 we continued upgrading our back-office systems to achieve a new platform. This step helps us to gain efficiency within our processing units and allows us to interface our back office with new front-end solutions and services for customers. Enhancing the service level for our customers and optimizing the STP-ratio for all our trade finance products is the top-priority for our agenda in 2004. (Wohlgeschaffen)

WACHOVIA

In 2003, we looked to remain in step with our customers' trading requirements by deploying new technology-based solutions to facilitate their cross-border business. This will remain our main focus into the foreseeable future. Wachovia's strategy is to position itself as the best and most trusted and admired trade services partner. To execute this strategy we must work to support multiple delivery channels used to integrate trade-related data streams with our clients. Thus, we have made the commitment to continue our investments in the technologies and electronic delivery infrastructure required by our customers. (McFadden)

CGE&Y

As a consultancy firm, Cap Gemini Ernst & Young (CGE&Y) has been involved in different trade service projects in 2003. In relation to the two previous years we noticed that financial institutions have restarted to invest again in order to prepare themselves for future market requirements and developments. There is a new demand for the full range of projects, from strategic business process re-engineering to system development and migration. The main issues are:

- Centralization of back-office processes, inhouse, near-shore and / or off-shore.
- Winning over customers via new web-enabled front-office solutions containing collaborative elements.
- Upgrading of back- office systems according to new requirements, for example, multi-mandator feasibility (for insourcing services), open architecture (for collaboration with corporate customer),integrated document management system (for electronic document exchange), etc.
- Implementation of sensitive risk and monitoring tools (especially in the field of commodity and structure trade & commodity finance), among others, to fulfil the regulatory requirements of Basle II.

CGE&Y believes that these developments will continue dynamically 2004. After years of internal restructuring and cost saving, banks are demonstrating a new optimism and consequently they have reserved a certain budget for trade service projects. One reason is that in relation to other back-office processes such as payments, a high potential for process optimization is considered possible, and therefore, the potential for higher efficiency and customer retention exists. (Kern)

LCM

What have the corporate clients been asking for in 2003 and do you expect the same concerns to be on the top of their list in 2004?

WACHOVIA

Corporate clients, as ever, have a wide array of needs and wants, but in general, their continued focus is on finding solutions that:

- eliminate delays (and consequently reduce cost) in the creation and interchange of trade documentation;

- facilitate clear decision making, based on the availability of real-time information about trading activity; and
- integrate the interests of the buyer and the seller in any trading situation.

Corporates continue to search for low-cost ways to facilitate the purchase-to-pay decision process (e.g., open account, and other non-LC approaches), and look to use their bank as a focal point for aggregating and distributing information among the various players in the trade chain. This is made apparent by the increased number of corporates now looking for a tighter convergence of information about logistics and freight movement, in addition to information on the status of documents and payment. These needs have emerged over the last several years, and addressing them will continue to be a key element in our product development initiatives this year. (McFadden)

HVB

We have learned from our customers that they want to simplify their foreign trade business as much as possible but without increasing operational risks. We believe that new alternative solutions for international trade, such as payments on an open account basis covered with bank guarantees, will be seen in the market more and more.

Although the relative percentage of transactions handled via 'traditional' methods such as LCs will stagnate or even decrease, our customers will still have to be able to process these in the future as well. Therefore they are asking for documentary credit management tools that improve handling (including document preparation) and achieve more control for such transactions on a global basis, embedding all importing and exporting entities of the involved corporations. (Wohlgeschaffen)

CGE&Y

First, 'corporate clients' have to be divided into the larger multinational corporates versus smaller and medium-sized corporates. The larger ones have

invested a lot of time and material into the optimization of the physical and financial supply chain. CGE&Y considers the integration of the financial supply chain into the physical one as a main concern in the past year and for the future. In this context it should be noted that the starting position of corporates is comparable to the situation of some banks: processing centres involved in the handling of documents are often decentralized. To optimize the financial supply chain the larger multinational corporates need to look for new operational models and to adapt processes to an enterprise internal standard by using state-of-the art IT-infrastructure. Within these strategic reflections banks are considered as partners in terms of trade service providers together with logistic suppliers and others who should all be integrated in the whole supply chain.

Small and medium-sized corporates (SME) are also looking to be supported within the financial supply chain. However their demands on the banks differ. SMEs need more product and transaction-based consultation and demand the delivery of value-added services (e.g., doc. prep., obtaining certificates and signatures ...). To provide such services in an efficient way, banks are offering more user friendly and web-enabled front-office tools sometimes combined with services from other trade service providers. (Kern)

LCM

The ISBP was approved in October 2002. Did it make a difference in 2003? Do you feel that the ISBP will have a profound effect on LC processing in the future?

HVB

We in HVB Group decided very quickly to adopt the ISBP in our daily work. We think this was the right decision. We have recognized that the ISBP helps our documentary checkers better interpret interpreting discrepancies or non-discrepancies in documents and gives them adequate arguments that are accepted worldwide. Thus the ISBP has had and will have a positive impact on LC processing. (Wohlgeschaffen)

Relationship Bank/ Corporates

	Big & Multinational Corporate	SME Bank
Driver	Corporate	Bank
Partner Level	Equal partnership	Bank is leading & consulting
Focus	Process (PSC)	Product & Transaction
Services	(Complex) Financing	Assets & Value added services
IT	Collaborative integration into PSC	(web-enabled) user-friendly front office tool

Source: CGE&Y

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WACHOVIA

To be frank, we have not seen that the ISBP has had a substantial impact on any major bank in the trade business. It has certainly helped many smaller institutions, however, as they look to up-tier their trade-processing capabilities to match market standards. The ISBP has also provided the corporate community with the necessary transparency of banks' trade practices. (McFadden)

CGE&Y

CGE&Y does not have the impression that the ISBP has made a big difference in 2003. However, we believe that the ISBP will have an impact on LC processing in future. There is one major reason for this. As already described above the trend towards the centralization of back-office processes either inhouse, or near-shore, or off-shore can be seen. This requires standardization and also puts the future of professionals who have many years of experience in document checking at risk. To remain competitive banks are under a sustained cost pressure that leads to new operational models and the requirement for the commoditizing of the documentary business. To become a commodity the product or service first has to be standardized. (Kern)

LCM

Have you seen any credit issued subject to eUCP? If yes, how many and issued by which bank(s)? If not, when do you think that banks will start using the new rules for electronic presentation?

WACHOVIA

Our bank has not yet seen any eUCP LCs. The current version of the eUCP is a foundational framework, but we believe there needs to be a substantial, industry-wide effort to develop bank-to-bank standards that can support predictable, secure outcomes in the creation and settlement of eUCP credits. (McFadden)

HVB

As far as we learned from ICC conferences the volume of credits issued subject to eUCP in 2003 is still very low. We were not involved in handling such credits. We think that this will be the trend for the future as well. Why? Banks recognize that, for LC handling, switching the traditional paper world one into an electronic one is not easy to do and does not benefit the customer much. But there is demand for new

products and services around electronic documents or electronic handling of documents to replace the traditional LC product or to speed up the presentation process under traditional LCs. Therefore, some banks have started to integrate Bolero SURF or TradeCard into their product portfolio, or they have started to build and launch B2B platforms for trade finance business, which include tools for electronic document preparation and exchange. We are keeping an eye on these developments as well. In general, we would rather focus on a carefully phased approach than a complex 'big bang' approach as previously recognized in the market. (Wohlgeschaffen)

CGE&Y

In CGE&Y's consultancy work, only a few eUCP-based credits have been observed in daily operations. Mainly these credits have been issued as test cases to see if and how it works. The question as to when banks will start using the new rules cannot be answered easily. The major problem is that a low-cost electronic platform or tool that supports the electronic end-to-end STP of documentary credits does not exist. Certainly BOLERO, for example, could serve as such a platform but due to the coststructure it is not yet suitable for bulk business. Furthermore, too many legal and regulatory hurdles for cross-border electronic document processing still exist (e.g., acceptance of digital signature by all public authorities). Finally, often the IT infrastructure of the banks is not yet set up to work with electronic documents. We therefore believe that the growth in the use of the eUCP will be a slow process that will still take a few years to become standard. (Kern)

LCM

Has your bank been approached to outsource its import/export LC processing? If yes, by which banks or service providers? If your bank is providing outsourcing services to other banks has this proven to be a successful business? Has outsourcing changed in 2003? What trends do you see for outsourcing in 2004?

HVB

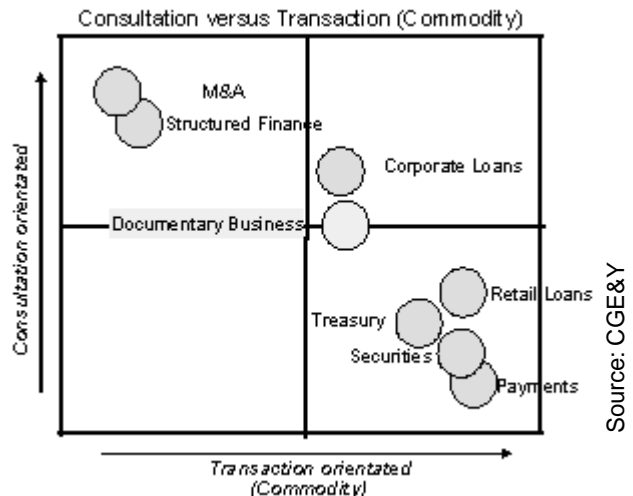
Outsourcing or insourcing seems to be an increasingly common practice in the market. Therefore, we are carefully evaluating any possibility of enhancing the efficiencies of our administration processes. Since the trade finance business is defined as one of the core business competencies within HVB Group, any outsourcing activity would have to comply with the highest process standards. (Wohlgeschaffen)

WACHOVIA

Wachovia has processed trade transactions on behalf of partner banks for eleven years, and currently supports forty-five financial institutions around the world. This is a vibrant and growing business for us, and we continue to expand our product offering, as well as tailor-making it to specific customer requirements. In 2004, we see more large banks considering outsourcing than in the past, many of which are beginning to realize that it can create a strategic advantage. This perspective is replacing the view that outsourcing is primarily a cost-reduction exercise. Outsourcing has, therefore, become more interesting to banks that may not have considered it a viable option in the past. We also see that customers expect a more comprehensive array of products (beyond just LC processing), and our strategy is adjusting to accommodate that reality. (Wilmot)

CGE&Y

There are already a few banks on the market who offer outsourcing services to other banks, such as Wachovia, Standard Chartered, ABN AMRO, ANZ Bank, Bank of New York and others. Banks who have outsourced a part of their doc. business are Allied Irish Bank and Canadian Imperial Bank of Commerce, just to name two. Generally CGE&Y see two trends for outsourcing: IT Outsourcing offered by some major IT Service Provider, and Business Process Outsourcing (BPO). Regarding outsourcing and especially BPO, CGE&Y sees that there are major requirements, which are sometimes underestimated. First, offering outsourcing services to other banks requires a state of the art IT infrastructure as well as lower transaction costs than the outsourcing bank. The highest impact on lower transaction costs, however, is the cost of personnel. A lot of outsourcing service providers have decided to handle by offering such services via near-shore and off-shore centres. Service Level Management must decide which processes should be done by the near-shore or off-shore centre and which should be decentralized. CGE&Y has observed that a lot of troubles occur after having adjusted the process. Additional manual process times, which have not been anticipated, arise because of multiple adjustments and the rechecking of the delivered work. The character of the documentary business is the major reason for an incorrect estimation of timing. The documentary business can be seen as on the interface between transaction-based and consultation-based business. This makes it much more difficult to decide which processes can be fulfilled by a centralized processing centre and which should be decentralized in comparison to other already more commoditized transaction types (e.g. payments). (Kern)



LCM

Doc Prep has been a hot topic at IFSA and SIBOS in 2003. How do you define doc prep? What alternatives are available to banks and corporate customers?

WACHOVIA

Document preparation comes in two primary forms: the first, where the corporate customer outsources document preparation to a third party (forwarder/3PL, bank, doc prep service company); and the second, where the company needs access to online document preparation facilities for self-service, as well as to securely aggregate documents submitted by various contributors to the trade chain. We have positioned ourselves to fully support both approaches, with a document preparation staff in our operations group, as well as Web-accessible doc prep facilities, which are tied to a secure document repository supporting collaborative online processing. (McFadden)

HVB

Doc Prep is the whole process of generating documents, which are necessary to perform an export transaction. TSPs like logistic companies or others offer such a service to corporate customers as an outsourcing solution. Some major banks have established their own subsidiaries with logistic and export specialists for this as well.

Doc Prep in a smaller sense is the process of generating documents under LCs in line with the terms and conditions of the LC. There are software solutions available on the market but in addition many banks offer such a tool in a web portal / platform or as a service within their product portfolio for trade finance business. We at HVB offer this doc prep service in

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Germany predominantly through our processing units. In addition we also offer our customers a standardized software solution.

CGE&Y

Within the group of larger multinational companies doc prep is considered as an essential internal process requirement. Within these companies many different departments are involved in the document preparation process, such as sales, production, procurement, accounting, and so on. Therefore, these companies require an electronic tool that connects all involved internal parties thereby saving process times and avoiding discrepancies. In contrast, the SMEs would like to outsource such work to a provider with more experience (e.g., banks, logistic) and / or have access to an online front-office system which would assist the companies with the doc prep process. (Kern)

LCM

What have you heard about Bolero, @GlobalTrade, TradeCard, or other solutions in 2003. Has there been interest from customers? How do you see them evolving in 2004.

WACHOVIA

Bolero and Tradecard continue to have difficulty gaining traction in the marketplace, due to the overall cost of implementation and the requirement to standardize entire trading communities on a common technical platform.

Our view is that the trade business will evolve to a paperless standard eventually, but that it will arrive there in incremental stages. The challenge for any financial institution is to stay keenly aware of the market's real capabilities as well as its expectations, and to adapt its product solutions to support the emerging standards at their own pace. This requires very close, collaborative relationships between the bank and its clients, something that is characteristic of Wachovia and is a committed element in our trade services strategy. (McFadden)

CGE&Y

- If you look at Bolero you have to look increasingly at the overall trade finance strategy of SWIFT. SWIFT formed the so-called Trade Service Advisory Group (TSAG) in 2003, devising a

collaborative trade utility model. SWIFT is working with Bolero to develop the components of the TSU model with SWIFTNet messaging. The key features of that model are to be:

- o A focus on limited information ('key data elements')
- o Based on short-form purchase order matching
- o Integration of open account and documentary trade
- GlobalTrade Corporation (former CCEWeb) changed its approach in 2002 and is no longer focusing only on the electronic exchange of documents. With @GlobalTrade Export the company has build a doc prep solution with connections to trade service providers capable of supporting multiple banks. @GlobalTrade Export is supporting the paper based as well the electronic workflow of document preparation and processing. CGE&Y knows that GlobalTrade Corporation has piloted this new solution with a few corporates in Europe and North America and plans to go live in 2004.

- TradeCard had a big success in 2003 when it acquired Deutsche Postbank as a customer. Deutsche Postbank can be considered a newcomer in the trade service market. Integrated with the companies DHL and DANZAS into the German Post Group, it has the best prerequisites to offer customers a comprehensive, all-inclusive service portfolio.

The above three services are offering three different solutions:

SWIFT / BOLERO: Full electronic settlement of classical trade finance products from open account to LC.

@GlobalTrade: Doc prep & collaboration solution for generating electronic and paper-based documents.

TradeCard: New financial products within a full electronic supply chain and a proprietary rule book

CGE&Y believes that there is space in the market for all three of them. However, the developments in this market segment are rather slow. For this reasons all three companies have to demonstrate their sustainability also in 2004. (Kern) 🌐