

Adding Value to Your Value

John Ladany*



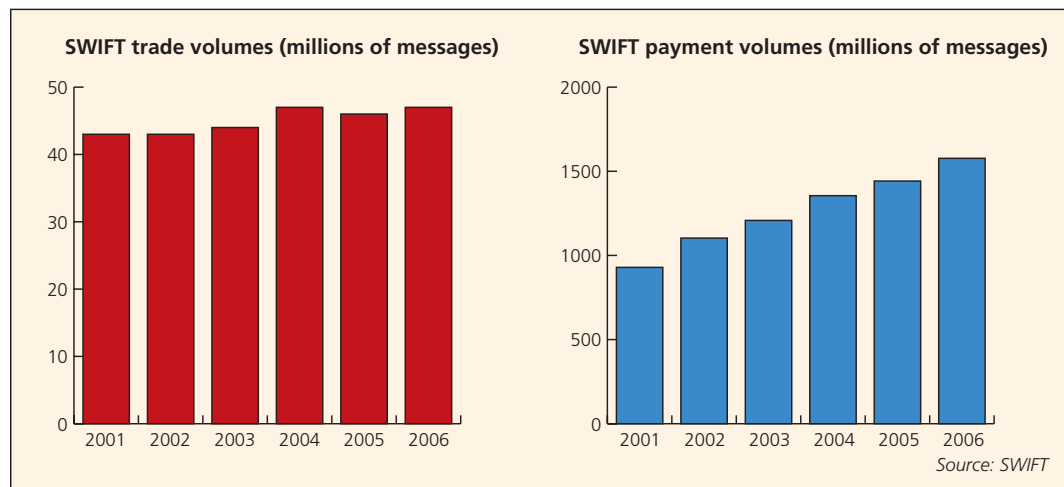
In today's increasingly global, competitive and 'flat' economic environment, financial institutions of all sizes are faced with trading scenarios such as these:

- A manufacturing client has decided to switch component suppliers from local sources to overseas providers – and you do not have banking relationships in those markets.
- A client, active in global trade finance and a provider of a steady stream of revenue, migrates from traditional letters of credit to open account financing – and you do not have the capability to help with their settlements.
- You have received three RFI's in the last 90 days, all asking you to describe your bank's web-based front end, purchase order integration capabilities and supply chain finance proposition – and you know you cannot do it.
- For most of the year, you can easily support your clients' cross-border trade transactions, but in the months leading up to the year-end holidays there is a spike in activity – and you lack the resources to maintain the expected turnaround times.
- You have paid millions of dollars to a recognised vendor for a back-office trade finance processing system that is supposed to seamlessly connect with your clients – and it does not work.
- Your investment (professional, capital, and technological) in providing trade services to your clients has been substantial, with significant additional outlay required to maintain and upgrade these resources – and the ROI is, at best, negligible.
- The demand for cross-border trade services and finance is growing, even from your small-and-medium enterprise (SME) clients – and you lack the staff, products and capabilities to support their global ambitions.
- A major corporate client is looking for a single source of pre- and post-shipment financing for suppliers across its worldwide supply chain – and you lack the on-the-ground funding network in those markets.

The consequences of not being able to fulfill customers' needs are considerable – either provide international trade capabilities or risk losing clients. Maintaining a full-service trade banking capability in-house has become tremendously expensive and difficult. One solution entails partnering with a global financial institution that can deliver the complementary/supplementary trade offerings your customers require to succeed, while you continue to retain the direct client relationship.

MARKET DYNAMICS

The massive growth of international trade activity is impossible to ignore. According to the World Trade Organisation, the dollar volume of trade has doubled in the past decade and quadrupled over the past 20 years. If this growth rate is any indication, it is inevitable that the number of companies participating in cross-border commerce – and the global trade services they expect from their banks – will continue to increase.



Offerings within trade finance have also become more sophisticated and demand escalating levels of expertise from financial institutions. There is, for example, a noticeable transition from traditional letters of credit to open account, allowing for savings and enhanced efficiency throughout the purchasing cycle. Yet the savings can evaporate as corporations take the document examination task back in-house, albeit on a limited scale, and the processing and payment of invoices. There remains a critical opportunity for banks to help them achieve the desired results.

SWIFT's message volumes provide evidence of the shift from letters of credit to open account trading. Payment volumes increased from approximately 929 million in 2001 to nearly 1.6 billion in 2006, while SWIFT trade volumes, which track letters of credit, remained relatively flat (see graph). More recently, SWIFT payment volumes increased 15.2% during the first seven months of 2007, while SWIFT trade volumes, both adjusted for business days, rose only 2.4% during the same period.

A STRATEGIC PARTNERSHIP

Clients are expanding and integrating the physical supply chain, and they expect their banks to help them integrate the financial supply chain.

Partnering with a global trade services provider allows financial institutions to

greatly expand their trade offerings, innovate and satisfy both current and future requirements.

At the same time, banks can satisfy infrastructure and technology needs. Because of their limited flexibility to move to lower-cost processing locations, they can also gain access to a global network, leverage it to capture greater trade flows and obtain entry to market-leading technical advisors and operational expertise.

It also benefits the financial institution by supporting the implementation of new capabilities (for example, open account and the SWIFT Trade Services Utility), spreading ongoing infrastructure and technology investments over greater transaction volumes (thus driving down unit costs).

The sourcing bank is also able to keep its 'factory' operating at capacity while managing unexpected or seasonal surges in volumes, as well as finding opportunities to purchase trade assets to take advantage of under-utilised country limits and bank lines. As clients continue to demand increasingly sophisticated trade finance support, establishing a strong working relationship with a banking partner can deliver bottom-line benefits.

**John Ladany is director and product manager, Citi Global Transaction Services. www.transactionservices.citigroup.com*

