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LCs ISSUED SUBJECT TO THE eUCP ARE NOT A DAY TO DAY BUSINESS PROCESS YET ...

By **Peter Tseng***

International trade is a complex business...not least because of our (over) reliance on the creation and distribution of paper documents whose data elements play such an intrinsic role in the successful conclusion of the sales contract.

If we take the time to consider a basic contract between a seller and a buyer - settled by a straightforward 'sight payment' documentary credit - we will find that there may be 20 actors in addition to the buyer and seller who have some role of varying importance to complete this international trade jigsaw.

Each actor's interest may include the goods themselves, exit export formalities, export exchange controls, licensing, logistics, transport, warehousing, inspection, insurance, import customs and clearance. The list goes on. And each actor will have a document to produce to evidence the role they play.

Exporters and importers



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need reliable actors to perform specific services, especially in terms of payments and finance - which must operate within a regulated, reliable framework with the capacity to support significant volumes of verifiable international trade transactions.

Advances in technology create opportunities to 're-engineer' operational processes to gain greater efficiency, control and more efficient risk management.

International trade has greatly benefited from the advances in internet-based

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technology. Communication between exporters, importers and their agents has been facilitated and communications costs have plummeted.

Indeed, all the parties in the trade chain electronically exchange data elements and yet they continue to create paper documents from electronically generated data to evidence certain acts or actions proprietary to their role; a clear duplication of resources.

The Changing International Trade Banking Environment

The International Trade Banking environment is changing rapidly. We are witnessing consolidation of the banking industry with fewer and larger trade banks controlling more and more of the business. Global reach in terms of trade processing, across borders with seamless integration between the actors in the international trade chain is now in sight.

Outsourcing

We are now beginning to witness the application of browser independent, secure internet-based platforms which in practice means that for the first time leaders in the field can provide both 'front office' and 'back office' internet based trade solutions.

This can work to the benefit of both small and large players, depending on their

role and positioning in the marketplace.

The larger players are facilitated in having a global reach for trade processing.

Whereas the smaller banks - who have traditionally built their trade business around client trading knowledge - can maintain their customer relationship while outsourcing expensive trade and documentary processing.

This can be done offshore in low cost but high volume managed trade processing centres. We are already seeing the examination of electronic records for compliance with direct feedback to the presenter and in some cases to the beneficiary when documents have been processed directly by the beneficiary.

The next step is in sight... the use of electronic records that facilitate the exchange of common data across interoperable platforms.

The United Nations electronic Trade Documents (UNeDocs) Project is gaining pace. The concept is based on the provision of a technologically neutral data retention and management solution. The result is that UNeDocs documents can be formatted in paper, XML, PDF and EDI.

The data can be read or visually examined through industry standard browser - technology and the format

supports electronic signatures and authentication of electronic records where required. The exchange of data is also facilitated thus removing many of the costs associated with traditional paper documents.

The further expansion of the UNeDocs model will facilitate the evolution from paper to paper-less environment. As UNeDocs always have the paper option they are consistent with the 12 Articles of the eUCP (which are intended to work in tandem with UCP 500 where electronic or part-electronic presentation of documents may form a presentation under a Letter of Credit).

Straight Through Processing of Trade Documents

There have been many trade related internet-based solutions that have promised 'straight through trade processing', but what does this phrase actually mean? English is not my first language but this phrase appears to intimate the "non-involvement" of professional trade bankers in for example the issuance of Letters of Credit.

I do not subscribe to the contention that from the time a customer remotely authorises an LC application over the Internet it would result in an automatic issuance of a SWIFT MT700 message (or some other such result) with the advice

and possible confirmation of same without human intervention.

Trade finance can be automated using proven industry standards. However, knowledge and judgement based human intervention is

to accept presentation of electronic documents on a secure platform.

The actual processing of presentations of electronic documents (or mixed presentations of electronic and paper based documents) under

but I believe we can expect significant progress within the next 5 years.

The existence of rules such as the Uniform Customs and Practice for Documentary Credits greatly facilitate the operation of trade products, in fact with the advancement of globalisation and trade flows UCP is a critical component within the international trade chain.

However, we had Documentary Credits before we had UCP. So there were customs and practices before the International Chamber of Commerce drafted the first version of the UCP.

It is my understanding that the eUCP were drafted before we had seen any tangible/widespread use or application of electronic records in the day-to-day trade business process of Documentary Credits.

I have no doubt that the drafting of the eUCP was a valuable exercise and will in time yield tangible benefits but could there have been an element here of 'putting the cart before the horse'?

Progress towards Presentation of Electronic Documents

In my experience it is the exporters who are gaining familiarity with the use of technology for the generation of 'electronic records' and who will ultimately be responsible for 'creating the environment'

"[I]t is the exporters ... who will ultimately be responsible for 'creating the environment' necessary for the paperless letter of credit."

required in the evaluation of trade risk, trade applications and examination for compliance.

This kind of human intervention is unavoidable. And I do not believe it should be viewed as a limitation but rather an opportunity for banks to provide valued added services to their customers.

Electronic Presentation of Documents

Many trade services providers, even those without a fully integrated internet-based solution, will testify that their trade services solution is eUCP compliant.

However, what does this 'eUCP compliance' really mean in terms of business processes and functionality? This is a key question.

I believe that eUCP compliance, as it is being marketed means an internet-based system with the capacity

documentary credits is not a business reality today, but as already stated the process of evolution from paper to electronic is well underway.

Many legal commentators maintain that the key barrier to the presentation of electronic records is the absence of legislation in countries recognising electronic documents, electronic signatures and electronic authentication methodologies.

I am not a lawyer. I am a businessman. From my practical experience in banks and organisations around the world I can see the main obstacle to the widespread use of electronic records under Documentary Credits is "custom and practice". People are used to dealing with physical, printed documents. So in my view, even though we have the technology, the evolution to the processing of electronic records will be slow,

necessary for the paperless letter of credit.

Advances in technology, such as the already mentioned XML Standards and J2EE secure technology, allow exporters to work through thin client applications in real-time, the benefits of which, in terms of cost and time efficiencies, are evident.

However, a critical mass is required to affect the evolution from paper documents to electronic documents on a global level. But attaining that critical mass is now within reach.

Trade Processing Investment and Legacy System Costs

There was a time when many bankers considered that fee based trade finance products provided a line of repeating, low risk business which could be referred to as 'easy money'.

There was a (similar) time when banking technology providers could also provide processing systems that in essence ring fenced the client through purchase of an expensive system with the resulting expensive support and consulting services. Also, at times referred to as 'easy money'.

This has now changed fundamentally for both the banking industry and indeed the trade finance solution providers. With advances in technology banks are correctly

very prudent when deciding whether or not to invest in expensive systems that possibly require significant modification and support costs.

This has been a major challenge to the trade finance systems providers who in recent years have experienced aggressive competition in what can now be considered a mature marketplace.

However, developments in the last year or so have seen the market take on a new dimension with players that can offer scalable internet-based solutions taking the lead.

This innovation has also facilitated the development of new financial models for banks, which can be modified to match the changing needs of the trade-banking sector. The need for heavy up-front capital expenditure has been reduced and banks can opt for a structure, which may include a variable pay per transaction element.

Some of the trade finance systems providers have failed to rise to this challenge but the few that have made the necessary investment in terms of capital, research and development and modelling structures are now beginning to see the benefits.

Conclusion

The provision of trade finance services by banks is

directly dependent on the amount and direction of trade conducted globally. The good news is World trade is increasing... we can see it in both mature markets and in the instances of double digit growth in emerging and developing markets such as the Asian markets and the countries in transition.

International trade is inexorably moving towards the 'universal' use of electronic records. The banking and trade community cannot afford to ignore the advantages that electronic records provide.... the United Nations estimates that paper-based documentation adds a margin of 5% and 10% to the cost of internationally traded goods.

The eUCP has played a role in the promotion of electronic records in the trade/letter of credit process.

However, the practice that develops around the widespread use of electronic records will evolve based on commercial reality rather than a set of Rules - however well conceived. ■



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