

Global Trade Advisor — Summer 2011

Open account trade services: Outsourcing aids buyers, sellers, banks

Although letters of credit (L/Cs) grew more attractive during the recent financial crisis, the vast majority of global trade transactions remain on open account terms. Open account provides many advantages to importers, allowing them to reduce bank fees by minimizing the use of L/Cs, free up lines of credit and take longer to pay for purchases. However, there's a tradeoff that importers must accept — and then manage.



With open account terms, all of the document processing and payment decisions become the buyer's responsibility. Indeed, one of the consequences of conducting transactions on open account is that the importer has to devote many more staff hours — and possibly even add staff — to handle document examination duties.

RBS offers an electronic purchase order and invoicing solution to help companies manage these additional duties.

Electronic purchase order and invoicing

The solution utilizes MaxTrad™, the bank's global trade platform. The process starts when the buyer uploads a purchase order into MaxTrad, where it is mapped into the Purchase Order Manager tool, and the system notifies the supplier that a purchase order is available.

"Once the supplier ships the merchandise, it enters the shipment data into MaxTrad," explains Deborah Seliski, Director and Global Head – Traditional Trade Channels and Open Account Services, at RBS. "Then we match the shipment data against what's required in the purchase order and identify any discrepancies. We send something similar to a drawing advice to the buyer to request review of those discrepancies."

At that point, buyers can accept or reject the discrepancies or, if they wait until the merchandise is received in their warehouse, can request the bank conduct a three-way match of the purchase order, invoice and warehouse receipt. "Ultimately, if the buyer decides to pay, RBS can make payment to the supplier on the buyer's behalf and send all the transaction information in an electronic file back to the buyer for mapping to the buyer's back-office systems," Seliski says.

The electronic purchase order and invoicing solution removes paper from the process and outsources document examination and payment initiation to the bank. "An accounts payable department no longer has to do any manual matching of order and invoice," Seliski says. "They don't have to key data into their own back-office systems, nor make individual payments themselves."

The MaxTrad open account solution particularly benefits companies engaged in supply chain finance programs. "Once invoices are in the system and approved, they can be financed for the suppliers," Seliski says.

SWIFT Trade Services Utility

Companies can reduce the number of proprietary banking systems they use to transact trade on open account, and minimize data formatting challenges.

SWIFT introduced standards for bank-to-bank exchange of open-account transaction data. In the future, RBS' participation in the SWIFT Trade Services Utility (TSU) initiative as a registered TSU would mean that it can share buyer and seller data — such as purchase orders, invoices, bills of lading and insurance certificates — with other banks in a standard format. RBS is piloting the new capability today.

"Our clients will only have to put their data in one format, no matter which bank they want to use globally," Seliski says.

Outsourcing strategy benefits banks, too

Increasingly, small and medium-sized U.S. companies are engaging in global trade. Yet many of the small and regional banks that serve them don't have the resources to provide competitive trade finance services — like the electronic purchase order and invoicing solution for open account trade. Indeed, stagnant fees, growing demand for more efficient trade settlement services, automation investments, increasing regulatory oversight demands, the challenge of scaling up operating models without significant capital investment, and the difficulty of finding skilled staff pose high barriers to entry for such banks.

Given these barriers, the opportunity for these banks may lie in partnering with an established global trade bank whose processing expertise, economies of scale and technology infrastructure can be deployed to support their clients' trade activities around the world.

A select few global banks have expanded beyond traditional correspondent banking service and developed trade processing hosted solutions that can be deployed to enable global trade capabilities at small to regional banks. The scope of services these banks provide varies widely, from discrete "white labeled" solutions to fully integrated, end-to-end solutions. "Designed to enable trade processing within

the outsourcing bank's own environment, these solutions combine customized transaction processing channels, 24x7 operations, imaging capabilities and back-office systems," notes Michael Bellardine, Global Product Head Strategic Sourcing at RBS, which offers these outsourcing services.

In a full outsourcing solution, the insourcing bank typically provides a dedicated front end system, develops specific interface files to facilitate transaction processing and oversees operational risk compliance. The outsourcing bank manages the trade integration infrastructure while retaining responsibility for client credit risk and anti-money laundering (AML) compliance.

Outsourcing can offload processing backlogs during peak periods. "Rather than add staff and increase fixed costs, a bank can augment capacity through document checking services in which documents are scanned and transmitted electronically for examination by one of the insourcing bank's certified specialists," Bellardine says.

To learn more about RBS electronic purchase order and invoicing solutions for companies, contact Deborah Seliski at Deborah.seliski@rbs.com or (312) 906-5518. For more information on trade services outsourcing services for banks, contact Michael Bellardine at Michael.b.bellardine@rbs.com or (312) 906-5566.