

Following the paper trail



Jacob Katsman,
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Trade & Forfeiting Review speaks to CCEWeb CEO Jacob Katsman and CGE&Y managing consultant Urs Kern about the state of the trade-services market. Why has the change from paper to electronic documents not happened as soon as some people predicted and who will drive the change to paperless trade?

In April last year, Cap Gemini Ernst & Young Germany (CGE&Y) and CCEWeb announced a strategic alliance agreement to market, pilot and integrate CCEWeb's @GlobalTrade™ multi-bank solution for trade services with existing systems of importers, exporters, banks and trade-service providers. Banks and corporates in Europe started to test electronic-trade platforms such as @GlobalTrade, Bolero, TradeCard and single-bank solutions from ABN Amro, Deutsche Bank, JPMorgan and other banks a few years ago.

As 2003 starts its engines, none of the initiatives has gained significant market penetration. The leaders in the market have changed their models and announced new products, but are still largely in pilot mode.

So why has the take-up been so slow? Katsman says that it primarily has to do with the practices that people are used to. It is difficult to change right away from the reliance on paper documents to not having the legal backing that paper provides, always favoured.

Another reason is that if you look at the platforms available - such as Bolero, TradeCard and @GlobalTrade - in most cases

solution, they have to be registered and they have to be authenticated.

And if they If system access is protected by digital certificates, the software is fairly new and managing it properly takes quite a bit of resources.

There are parts of the world where there is no legal infrastructure to deal with digital certificates. There are other parts of the world where digital certificates cannot be used because of export restrictions. Such restrictions pose challenges to adoption and build-up of critical mass. Taking this into account, if you think about any platform that would need the buyer and seller on it, plus parties in their respective trade chains on board, absolutely everyone on it before any transaction could start, that becomes a very challenging task.

Hurdles and hindrances

Kern points to six different reasons as to why take-up has been slow.

□ First, there has been a big gap between Bolero's vision when the company first launched its platform in 1998 and the available

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you want to achieve straight-through processing (STP) of electronic documents. That being the case, all parties must be using the same system, meaning that you must have the importers, exporters, banks and all the other trade-service providers registered on one platform. Be it a neutral multi-bank platform like @GlobalTrade or Bolero or a single-bank

technology. This resulted in high investment cost, not only on the bank side but also on the customer side. Many banks have spent considerable amounts of money on Bolero-enabled technology and marketing efforts without achieving the break-even point on their investments. Now, with the availability of Bolero XML and other changes in product offering, it

has become more customer-friendly, although not all agree. Most banks are still hesitating due to their own frustrations or the frustrations of their fellow bankers with the Bolero experience. This impacts not only the current Bolero marketing efforts but also those of its competitors such as CCEWeb and TradeCard.

□ Second, the leap from 99% paper-based settlement to highly sophisticated STP like Bolero is probably too drastic. It is CGE&Y's opinion that especially @GlobalTrade from CCEWeb could easily build the bridge between paper and e-paper.

□ Third, the workflow of an international transaction is highly complex. STP can only be achieved if all participants are using the same internet-communication language. However, the e-commerce investment of banks and corporates were concentrated at the end of the

portal of Standard Chartered and the AllTrade platform of ABN Amro are very good examples of this. However, customer acceptance of such single-bank solutions has to be awaited. Especially in Europe, customers are looking for multi-banking solutions, a demand that cannot be supported by a single-bank platform.

□ The fifth hurdle is the lack of an international communication standard for trade-services operations. In the same manner as trading participants were demanding common international rules for trade-finance operations at the beginning of the 20th century, now in the new internet age the same people are looking for worldwide-accepted international communication formats and standards. The International Chamber of Commerce has already created the base by launching the eUCP and ISBP last year. It will be very interesting to watch the different initiatives

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1990s in the so-called e-shop solutions (purchasing portals). The use of the internet to achieve workflow collaboration (c-commerce) with other companies aiming for optimisation of the processes is rather new. C-commerce, however, will be the great opportunity for solutions like Bolero, @GlobalTrade and TradeCard. On the occasion of a feasibility study for building a collaborative virtual working space in the trade and structured-commodity finance area for one of the major banks in Germany, CGE&Y has calculated the efficiency potential to be between 25% and 40%.

□ The fourth point is the relatively high investment cost versus the relatively small volume of trade-finance transactions. About 2% of worldwide Swift messages are letter-of-credit, MT 700-based messages. This accounts for over five million letter-of-credit messages per year. Trade finance and trade services continue to remain in most banks a "bank-in-bank" business that is hardly understood by other bank employees. Some banks have therefore decided not to invest in a final initiative but in its components as Document Management System, Workflow System and Security (Certification), considering also the requirements of other departments. The B2Bex

regarding standardisation. Especially Swift has to be observed in this context. Swift is planning to develop new XML-based message types (Swift Next Generation). Due to CGE&Y information, the focus will be also on trade-finance transactions.

□ The sixth hurdle is the question of marketing responsibility. Financial institutions in general are waiting for customer demand, whereas customers are waiting for the banks' offerings. The selling offices of the different initiatives have been in some cases too small to cover the whole market. Now a rethinking can be watched. In Germany, for example, a certain group of corporates and banks has started to discuss the collaborative workflow optimisation.

Exporters lead the way

Katsman believes that exporters will lead the change from paper to paperless trade since they have the most to gain from efficiencies created as a result of speeding up the transaction flow. Large exporters that receive over 300 export letters of credit per year deal with many advising banks. In order for them to change their existing paper-based process, the solution provider must first of all offer a multi-bank platform, Katsman says.

@GlobalTrade™ is a multi-bank solution for trade services. It is a fully open web-based system for completing cross-border trade transactions over the internet that adheres to International Chamber of Commerce (UCP

solution replacing the trust that these payment methods provide to the trading community".

Katsman believes that there will be a second wave of the e-commerce boom. This wave will help to speed up market penetration

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500 and eUCP) rules and ISBP. The system offers STP by merging banks' systems with the ASP-based document-management system, while allowing users to leverage their existing technology infrastructure. CCEWeb's CIO, Nick Pachnev, who co-founded @GlobalTrade™ with Katsman, believes that the most important feature of the @GlobalTrade system is that it allows users at any time in the transaction to convert electronic documents to paper.

Will letters of credit go away?

Some people say that the use of letters of credit will diminish and, in time, fade away; however, Katsman disagrees. "As long as human nature is what it is, there will be a variety of payment instruments to meet the needs of a buyer and a seller in a trade transaction. Whether they do it electronically or in paper form, these instruments will remain," he says. "The preference for a particular type of instrument will depend on the economy and market conditions. I do not see technology or another

for the solutions that were created and survived after the first wave. "I believe there will be a gradual penetration starting from the middle of 2003 with the companies that can find the right business model that is appropriate to the present market conditions," he says. "The real benefit will come when there will be critical mass on any platform, and when a certain number of other providers - like ocean carriers, freight forwarders, insurance companies and government agencies are also connected."

According to Katsman, the market needs improvement in the handling of trade transactions. Too much time and money is spent today in handling paper documents. In some markets the paper will not go away for a long time and this is why the right approach is needed in order to achieve market penetration. "The company or companies that will find this correct approach will change the face of the trade-services industry and will make the work of all participants in a trade transaction easier, safer and more efficient," he says. □

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would like to receive article proposals and submissions from e-commerce solutions providers and consultants.

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