

Bank-to-Corporate Relationships – Can Technology Offer a Clearer Perspective?

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The relationship between banks and their corporate clients has changed dramatically over the past decade and is no longer the happy marriage it once was. The influences that have shaped this transformation are being felt throughout the whole financial services sector, from the largest global business right through to the humblest SME. In the current context, amidst the credit crunch,

banks need to do more to support their corporate clients who are calling for innovative solutions.

The age of urgency

This is an age of urgency, as business decreases, companies are forced to look inward and find opportunities for increasing process and organisational efficiencies. The ripple effect has also meant that market structure

has undergone a transformation too, with many organisations regrouping following corporate restructuring, and larger companies moving from multiple, decentralised operations to shared service centres. The markets today bare little resemblance to those we were working in as little as five years ago, and further still in the last 18 months.

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In the trade finance world, the move to open account trading in recent years has marked the shift of power in banks-to-corporates relationships. It is widely said that open account trading is a faster, easier and a less costly way of settling transactions than using traditional documentary credits and collections. Despite being the least secure method for exporting, open account trading now represents around 70% of the global international trade, compared to 15% for Letters of Credit (LCs) and the current reported come-back of the latter does not seem to change that share significantly. It was the corporates who led the change in the trade finance market and decreased significantly the use of traditional trade finance tools. They have responded in part to banks inefficiency in this space and lack of agility.

Banks have traditionally offered corporates online facilities to “help” them automate their trade finance business and have a clear view of their transactions. However, this has too often tended to be restricted to the provision of rather limited online web forms in which corporate clients can enter LC details and view the status of their transactions. While valuable for banks because it saves them a data input or re-keying job, this had no real value for the corporates.

Adding value

Companies which are major users of trade finance products, both traditional and more tailor-made working capital financing ones, want to gain a common way forward with banks but this has always proved very difficult.

Corporates need to receive information more quickly to allow them to optimise cashflow as they look to reduce costs and increase productivity. Treasury departments are coming under pressure to manage costs in line

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with their banking needs – an increasingly difficult task. The knock-on effect should be that banks are able to react to these market forces as corporates become more willing and able to move their business relationships elsewhere.

Corporates need to increase the visibility of the supply chain internally for their suppliers and match the flow of goods more closely with payments and invoices. But more than anything, corporates need their banks to become a participant rather than an intermediary. They need them to take a more active role in helping them manage their supply chain and their trade services business. The shift to open account transactions led by corporates has proven to banks that if they don't reduce cost and offer more services, corporates have the power to find different ways to trade and bypass them.

Transparency with technology

Technology is a key enabler and both corporate businesses and banks need to have modern, open systems in place so they can interact effectively and meet the challenges of today's markets. An example is how market trends in the trade services and financial supply chain space have propelled the development of multi-bank platforms, such as Misys Trade Portal for Multi-Bank, which provide a true multi-bank architecture where customers, typically large international corporations, can access multiple banks and their consolidated financial supply chain transactions via a single front-end solution.

With many companies operating with multiple relationships insisting

upon a single sign on and a single view of their trade transactions, the development of multi-bank platforms benefit both those large international companies that need consolidated access to multiple banks, and banks that require financial supply chain solutions to meet their clients' needs. While such multi-bank services are not the ultimate one-size-fits-all answer to all corporates' requirements and they can instead nicely complement a bank's proprietary channel optimised for other customers' segments, they are however a good example of where technology can improve transparency and the quality of the bank-to-corporate relationship.

Bunge, one of the largest agribusinesses and user of trade finance, is an example of one corporate that has been proactive in telling their banks that they want a single channel of communication and value-add business functionality. Seeking to improve its operational efficiency, Bunge looked to remove faxes and emails as well as manual tasks around the monitoring of its credit lines. By using a multi-bank portal, such as Misys Trade Portal for Multi-Bank, it was able to manage instruments like export letters of credit and export documentary collections to support its domestic Swiss hub and production centres around the globe.

Misys Trade Portal for Multi-Bank also has the ability to use the new SWIFTNet connectivity option and MT798 messages to support bank-to-corporate as well as corporate-to-bank import and export letters of credit, guarantees and standby letters of credit. With such an option in addition to

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the open Web-based model, it means that there are very low barriers to entry for banks and corporates. One of the main challenges for all multi-banks utilities, namely reach, should now have been solved.

Technology is one of the things that requires investment in order for banks to be more attractive and maintain or gain a competitive edge in today's market. What corporates ultimately want is an efficient means of dealing with banking partners and the services they provide. Without

doubt, corporates have 'raised the bar' by leading this revolution. Meeting customer expectations will not be an easy task for the banks, with less money available for investment, but they have recognised the need to change their approach. Many are committed to new trade services business models. For those that manage to break down the traditional trade finance silos, there will be a whole new revenue opportunity to sell an extended range of financial products under the trade services umbrella. Those that don't adapt will find that they are operating in a shrinking, niche market. ■