



## The Trade Survey part II

- exploring corporate needs for Trade messaging over SWIFT

**Version 4**  
**20080305**

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## 1 SITUATION ANALYSIS

### A Context

At the October 2007 meeting of the Trade Services Advisory Group (TSAG - advisory group to the SWIFT Board) SWIFT presented the results of a community consultation on SWIFT traditional trade instruments. The conclusions of the survey were:

- 1 MT trade standards are out of line with the business resulting in high usage of MT 799s,
- 2 Corporates and banks want C2B/B2C trade standards to reduce costs via automation,
- 3 The industry believes that XML is a given and expects to move to XML in time,
- 4 A trade vision, including SWIFT's position on future standards developments, is needed.

The TSAG requested SWIFT to undertake further analysis to support the development of solutions to address points 1 and 2 above. This document deals with C2B standards as it was deemed to be the most urgent. It presents the findings of a survey exploring needs from the corporates' viewpoint.

### B The Trade Survey part II

The original community consultation was mainly focused on banks. SWIFT therefore undertook a survey of 30 corporates, representing major industrial sectors, via written questionnaires and telephone interviews. The sectors included automotive, aerospace, paper, telecoms, building materials, chemicals, white goods, retail clothing, household and food, agricultural commodities, oil, steel, entertainment, logistics, and trading. The corporates surveyed are based in the Americas, Europe and Japan. Half are connected to SWIFT via MA-CUGs or SCORE, half are not connected. Over 50% are both importers and exporters, the rest being divided equally between importers and exporters. Volume from these corporates reached 20,000 LC advices per year and 5,000 LC applications, even where LCs represent only 15% of trading activity.

### C Next Steps

The TSAG supports SWIFT in all three activities as outlined below. TSAG recommends that SWIFT seeks June Board ratification for the second item below.

- Formalisation of the use of Trade Services Request Types in FileAct and the publication of their availability in the SWIFTNet FileAct Implementation Guide. (Target available date April 2008)
- Inclusion of four MT trade messages over FIN in SCORE supported by the publication of guidelines in the SWIFTStandards MT Implementation Guide – subject to June Board ratification. (Target available date September 2008)
- Undertaking a feasibility study to look into redeveloping the full set of category 4 & 7 messages in XML for B2B and B2C/C2B use. (Feasibility study to start Q4 2008)



### 2 THE TRADE SURVEY II – SUMMARY CONCLUSIONS

- **Centralisation**

Many of the corporates surveyed reported major centralisation projects for their trade businesses. They need a global view on their companies' trading activities, and the corresponding financial exposure, and are trying to improve their Trade Finance systems overall. This may result from mergers/demergers or compliance requirements. They need more transparency on their operations and better control over the process. "We are trying to figure out what is happening both domestically and abroad," said a major multinational. At the same time most intend to keep document management - preparation and examination - at local level, as this is where the expertise regarding regulation, customs, certificates of origin, etc, lies.

- **Single channel**

On the whole, corporates use different means and different channels when sending/receiving data to/from their banks. 60% of the survey respondents use non-electronic or unsecured communication methods in addition to electronic means. The telex is still used, even though these corporates are being told by their banks to change.

28 of the 30 corporates are multibanked. 43% of those surveyed deal with over 10 banks for their trade finance activities, and 50% use between 2 and 10 banks. Using a different application per bank is seen as inefficient. Many global corporates seek a common secure communication channel to all their banks.

- **Standardisation**

Corporates trade globally...they would like to see a global standard for C2B. In Germany the DTA standard for the letter of credit (based on the MT700) is prevalent, and is now also accepted by Austrian and French banks, and Italy has a national standard. Outside these boundaries corporates are forced to use different standards. A global standard would enable increased automation to reduce costs and error rates – items which are high on their priority list. Corporates estimated their savings/productivity gains from automation at 20 - 50%. A recent Aberdeen Group report (The 2008 State of the Market in Supply Chain Finance, Dec 2007) cited the lack of standards as the top reason for corporates not further streamlining and automating their LC processing.

- **Players**

Major corporates are pushing their banks to move to a multi-banking single standard environment. "We have forced the banks..." said one, "we have had discussions with our banks", said another. Many software providers are engaged in this space. The two best known are Bolero and Global Trade Corporation.

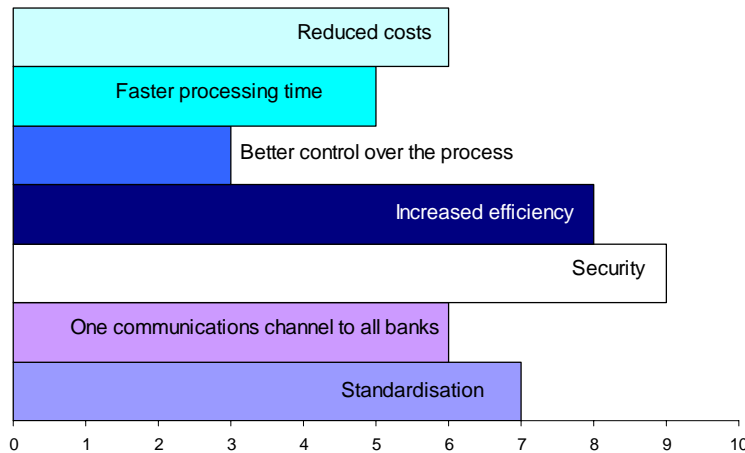


### 3 THE TRADE SURVEY II – DETAILED FINDINGS

#### 3.1 WHAT CORPORATES NEED WHEN THEY SEND TRADE DATA OVER SWIFT

Both SWIFT- connected and non-connected corporates rate security a key advantage of sending trade data over SWIFT, with increased efficiency a close second (see Fig 1). Standardisation comes third, then the advantage of having one communication channel to all banks and, at the same level, reduced costs. Clearly some of these aspects overlap. Other advantages stated were that “SWIFT could help to link our whole company world”, and that using SWIFT could answer the need for STP processing C2B to B2B and back again. One trading company wanted SWIFT to help it do the same or more with less headcount, another wanted a more cost-effective way of paying its vendors. For another SWIFT was seen as being able to help with time zone issues.

Fig 1 – Perceived advantages of using SWIFT to send trade data



#### A Security

Security was the top of the list of advantages stated when sending trade data over SWIFT. Authentication is mentioned by several as desirable.

#### B Increased efficiency

- Automation

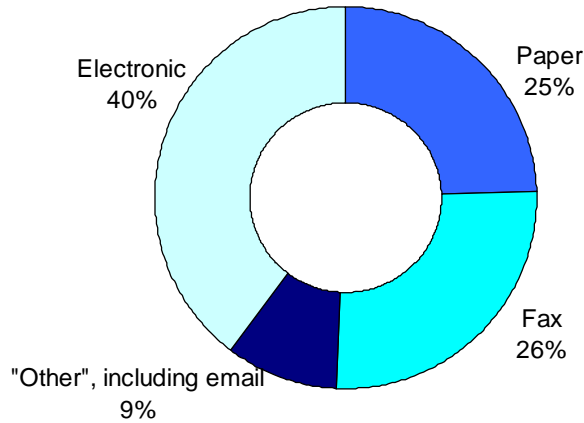
60% of the survey respondents use non-electronic or unsecured communication methods in addition to electronic means (see Fig 2). Fax, paper and email information is usually drafted to bank-provided templates. Over 50% of respondents are happy with the data they receive, maybe because they use bespoke systems with their banks. However, one corporate reported that “each of our bank applications is very different”.

66% of respondents use a specific trade application – some are built in-house. One remarked, “Our in-house system has been there for a long time. It is still meeting the needs of the business, but we will probably replace it long term.” In 2006 it carried out an evaluation of potential replacement systems, but couldn’t find a product that would improve on its current



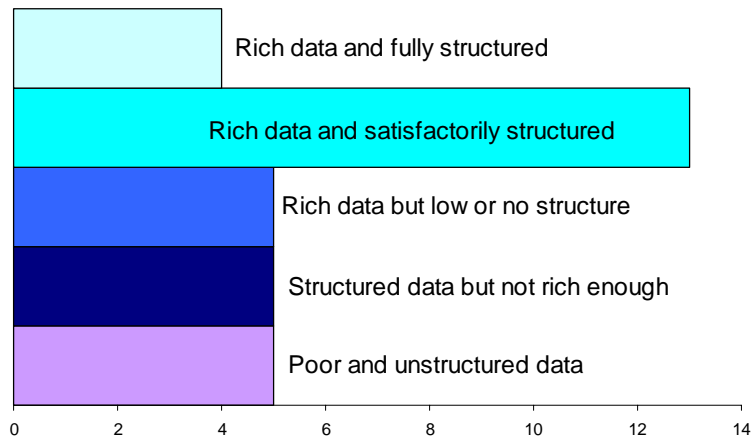
one. This organisation saw using SWIFT as a road to better STP and greater security. If it changed systems it would need to be to one covering all trading parties.

Fig 2 – Current means of sending/receiving trade data to/from banks



60% of survey respondents considered their data overall to be rich and fully or satisfactorily structured overall (see Fig 3). Low/no structure and a high percentage of free text in the messages always means an increase in manual handling, taking more time, and increasing the risk of errors.

Fig 3 – Qualifying the structure and richness of data

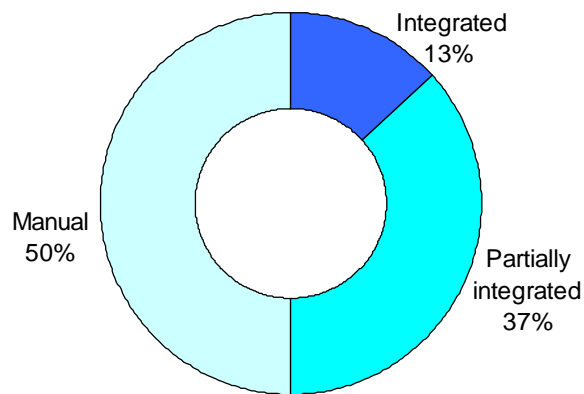




- **Integration**

50% of corporates surveyed report manual entry for trade data, 37% that the data is only partially integrated into back office systems (see Fig 4). Better integration to help increase efficiency is a challenge for corporates, the latter ranking second after security in terms of perceived advantages of sending trade data over SWIFT. 13% is both the level of back office integration and that of “full satisfaction” with the current automation of trade flows, although these aspects don’t always correlate one on one. 30% are “not satisfied” with their current levels of automation, 57% “partially satisfied”.

*Fig 4 – Level of back office integration into the trade flow*



- **Faster processing time and better control over the process...**

...is seen as part of the overall need for increased efficiency; some respondents say that they need better tracking and reporting facilities. As stated above, centralisation of the Trade Finance process is high on the agenda of many corporates. Those where Trade Finance is currently decentralised “have a huge workload”...and lack a global view. Corporates which are both exporters and importers may have exports decentralised in different business units, and imports in the Procurement area.

Faster initiation and processing time is of vital importance in the trade industry as a whole, “We need to get the transaction issued quicker”. Documents and data often lag behind the physical transfer of goods thus creating unnecessary inefficiencies and costs. Lower inventories also demand faster processing time.

One company remarked that it had standardised its LCs, and now needed better reporting mechanisms, another that it needed to be able to retrieve different elements of information on all parties in the transaction.



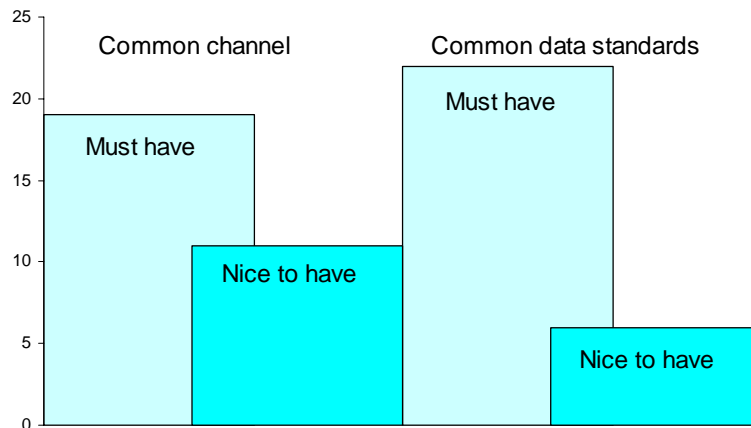
**C A common channel and common data standards**

79% of corporates rate common data standards for trade flows a “must have” for an electronic platform for Trade Finance, while a common channel is a “must have” for 63% (see Fig 5). When asked how important it is for the platform to integrate with other applications, 70% answered that this is a must.

Corporates trading worldwide use global banks, but many also use local banks, especially when sourcing from Asia. They therefore need a global standard.

Many corporates see SWIFT as the road to standardisation, both externally and internally, “across the organisation”, and in some cases SWIFT is seen as a trigger to standardise adjacent areas. One corporate wanted a complete view of all parties, using the same standards, up and down the chain.

*Fig 5 – Importance of having a common channel and common data standards for trade flows*



The survey then asked about roadblocks hampering adoption of a common platform. As can be seen from the results below (Fig 6), the answers did not indicate a general trend.

*Fig 6 – Potential roadblocks which could hamper adoption of a common platform*

Potential roadblocks	Blocking	Partly blocking	Not an issue
Software integration efforts	3	19	8
Lack of priority within your organisation	3	16	11
Concern about being an early adopter		20	10



**D Reduced processing costs**

93% of corporates rated reduced processing costs as a result of a common channel and common data standards essential or important (see Fig 7), while 76% rated a reduction in error rates essential. 57% of corporates considered improvements in supply chain efficiency essential, while ease of establishing additional banking relationships was not seen as a priority.

As mentioned above, 70% of those surveyed stated that a common platform must integrate with their applications.

*Fig 7 – Benefits required from a common channel and common data standards*

<b>Benefits required</b>	<b>Essential</b>	<b>Important</b>	<b>Nice to have</b>	<b>Not a driver</b>
Reduced processing costs	17	11	2	
Reduced error rates	23	5	2	
Easier to establish additional banking relationships	9	7	9	5
Improved supply chain efficiency	17	7	3	3

**3.2 PRIORITIES FOR TRADE MESSAGING OVER SWIFT**

**A Trade finance instruments used by corporates**

57% of survey respondents trade mainly via open account, reporting 30 - 99% of their trades being conducted this way. Many corporates, however, are still heavy users of LCs, up to 90% in some cases. Of those surveyed, the retail industry seems to be the heaviest user, particularly when trading with Asian countries, and with new supplier relationships. Bangladesh was described as “exploding” as an exporter – corporates doing business here are likely to start off on an LC basis.

Exporters surveyed try to minimise the number of LCs used, but this is sometimes a condition of the contract. Bank guarantees, where used, account for up to 25% of the business. Documentary collections are used in the main by the paper and steel industries, for up to 50% of their trading activity.

Even when LCs represent around 15% of the business, exporters receive between 6,000 and 20,000 LC advices a year. On the import side, corporates report LC applications running to 5000 per year. Amendments clearly depend on the type of business, but may concern, among other aspects, expiry dates, shipment dates, quality changes, changes in documentation due to new legislation/compliance requirements, goods description, or a change of transport (from ship to air) if the delivery has been delayed at the factory or is more urgent than foreseen. Many importers, however, have recently moved to sending amendments/additions to existing LCs rather than opening new LCs, as this costs less for what are essentially repeat or extended shipments.



## **B Corporates' priorities for Trade messaging**

Many corporates currently use templates with messaging structures that are "SWIFT influenced", "SWIFT inspired", "SWIFT acceptable", whether the vehicle is fax, paper, or electronic.

Their priorities for messaging over SWIFT reflect the instruments used as above:

- 1 LC Advice - 50% of participants put this as the priority.
- 2 LC Application/Amendment - 26% of the vote.
- 3 Guarantee messages – were required by 11% of the respondents.
- 4 "whole set" of messages - including the above is required by 13% of respondents.

These priorities reflect exactly the priorities stated by the banks in the survey we conducted in September 2007 where we asked which messages should have a corporate/corporate aligned version.

## **4 THE WAY FORWARD - THREE ACTIVITIES IN MORE DETAIL**

Three activities, supported fully by the TSAG, seek to respond to the conclusions of both trade surveys. Banks and corporates are aligned on their views on trade messaging going forward - that Corporate to bank standards are needed, that current standards are out of line with the business, and that XML is a given, in time. The first two options will be implemented this year, while the third - the feasibility study to look into redeveloping the full set of category 4 & 7 messages in XML for B2B and B2C/C2B use - will start in Q3.

**A Formalising the use of SWIFTNet FileAct for conveying trade data** - Formalisation of the use of Trade Services Request Types in FileAct.

SWIFT is aware that FileAct is already used to a certain extent to convey trade data between corporates and banks. This option seeks to formalise this usage, increase transparency, and allow better classification and routing of messages through the use of specific request types. This option will use the existing SWIFTNet FileAct service to support the transfer of files structured in any format as agreed between a bank and its customers, including SWIFTStandards, EDIFACT, XML, scanned images, etc.

All relevant documentation (SWIFTNet FileAct, SWIFTNet FileAct Implementation Guide for Corporates, etc) will be updated accordingly.

Target available date - April 2008

**B Using SWIFTNet FIN for C2B** - Inclusion of four MT trade messages over FIN in SCORE - subject to June Board ratification.

This option proposes to reuse the existing Cat 7 messages, without technical change, in the C2B environment. Their implementation will be governed by a set of agreed usage guidelines. These C2B guidelines would override all usage conventions that are specific to B2B usage and would in certain instances, reuse elements in a manner that is only appropriate in a C2B environment.

The guidelines will state that the use of these messages in a C2B environment is outside the UCP framework as already established for B2B messages.

The four messages are:

MT 700/701 - Issue of a Documentary Credit - will be used C2B for an Application and B2C for an Advice

MT 707 - Amendment to a Documentary Credit



MT 760 - Guarantee/Standby

MT 799 – Free format message

All relevant documentation (SWIFTStandards MT Implementation Guide for Corporates, etc) will be updated.

Target available date - September 2008 following ratification by the June Board.

**C Undertaking a feasibility study** - to look into redeveloping the full set of category 4 messages for B2B use, and category 7 messages for B2B and B2C/C2B use, in XML.

SWIFT will consult the community on evolving business requirements. This consultation will begin Q4 2008.

Regarding XML development, this survey asked how ready corporates were to use XML. 27% are ready now, 60% will be ready by 2009. One corporate said it would be happy to plan if there were a specific timeframe. Another suggested SWIFT should increase the set of characters the messages use, allow more space in the messages and reduce the amount of free text – all issues for which redevelopment in XML would provide solutions. This information will be incorporated into the feasibility study.

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