



# The Trade Survey

- ascertaining community appetite for change in the Trade space

**Version 3**  
**20071101**

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## 1 SITUATION ANALYSIS

SWIFT Message Types (MT) 7xx for Documentary Credits and Guarantees, and 4xx for Collections and Cash Letters were first implemented on the SWIFT network in the early 80s. Since their introduction there have been no major enhancements to these messages types, only 'patchwork' enhancements. The most significant changes were in 1996, to accommodate the UCP 500 and URR 525 requirements. Standards release 2007 (27th October) incorporates the UCP 600 requirements. Category 7 updates in Standards release 2008 are ready for the December SWIFT Board approval. They can be found on the Standards site on [www.swift.com](http://www.swift.com)

The trade world has changed significantly since the 80s. SWIFT has responded by focusing on the open account space, with the development and deployment of the SWIFTNet Trade Services Utility (TSU). The commercial availability of the TSU and the introduction of corporate access have increased interest in SWIFT's trade services from both banks and corporates. Much of this interest has been directed at the use of Cat 7 messages for corporate to bank communication.

### A Traditional Trade instruments in the context of SWIFT Supply Chain Strategy

SWIFT needs to determine a more comprehensive stance towards the traditional trade instruments. SWIFT must also determine the place of these instruments within the context of its wider Supply Chain Strategy. Dialogue with the community is needed:

- to help determine the future direction of traditional trade messaging over SWIFTNet
- to advance the wider discussion on corporate to bank collaboration
- to gauge more accurately the appetite for change in the trade space

### B The Trade Survey

SWIFT undertook a community consultation - the Trade Survey - on its traditional trade services with these more specific objectives:

- to assess the use and usefulness of the cat 4 and cat 7 messages in the bank to bank space
- to ascertain the potential message changes needed to help banks improve their business
- to understand banks' and corporates' messaging needs in a corporate to bank context
- to verify business and technology needs with SWIFT partners/vendors
- to seek insights on how SWIFT might move forward

The survey involved banks, corporates and vendors. The findings were presented to the TSAG (Trade Services Advisory Group - advisory group to the SWIFT Board) meeting at Sibos on October 1st.

### C Next steps:

The TSAG concluded that two actions needed to be addressed in the foreseeable future:

- to look further into the use of the free format messages in category 7 (MT 799). This will be done in consultation with a group of banks.
- to examine the needs for SWIFT corporate to bank messaging for trade from the corporate side. This will be done by means of a further, more comprehensive survey among a wider group of corporates.



## 2 THE TRADE SURVEY - SUMMARY CONCLUSIONS

- **Vision required**  
There's an urgent need in the community for a trade vision/strategy and timing on future standardisation developments. System upgrades in every form will be impacted by this strategy. Budget cycles demand 2-3 years' notice of any major investment. Many banks expressed the wish to be part of the process and seek wider consultation.
- **Current standards are out of line with business**  
SWIFT Trade traffic is flat and revenues are falling. However, SWIFT needs to ensure that it continues to meet customer needs and protect the traffic. Some areas of the business are badly catered for, particularly Standby Letters of Credit and Guarantees. This is leading to overuse of free format messages and reduced automation.
- **Corporate to bank/Bank to corporate trade standards are needed**  
Banks and corporates alike stated the need for a worldwide standard. Corporates are multibanked, a single standard is a must. Most banks expressed the opinion that if the SWIFT offering is appropriate, they would stay with SWIFT and avoiding the extra costs of using another supplier. Increases in traffic and revenue for traditional trade will come mainly through corporate access.
- **XML is a given, in time**  
There is a real awareness, even among banks that are not keen to move to XML, that a move is inevitable. A move to XML is justified more on technology grounds than on business grounds. Banks keen to move are more homogeneous in their views on timeframe and have higher current usage of XML within the bank.

## 3 THE TRADE SURVEY - DETAILED FINDINGS

### 3.1 FEEDBACK FROM BANKS

The survey covered 20 banks and one banking association. The banks were drawn from the top trade banks on SWIFT, the TSAG banks, and banks represented in the Trade Finance Maintenance Group, from the Americas, Asia, Europe and South Africa. Their SWIFT Trade traffic - cat 4 and 7 messages sent - ranged from 2.1 million to 75 thousand in the period Jan-Aug 2007. These banks' traffic represents 36% of the total FIN trade finance traffic on SWIFT.

#### A Automation and systems

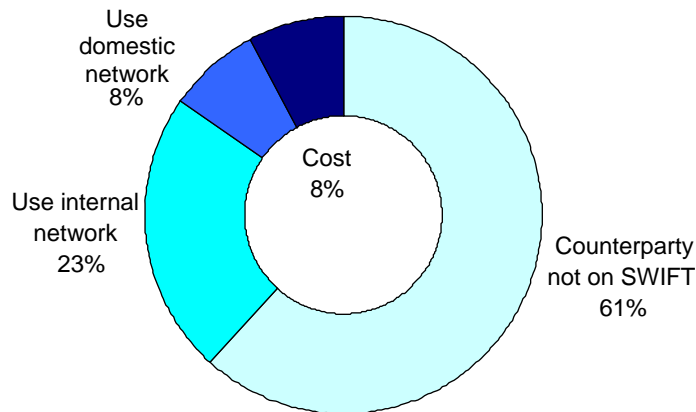
- Banks are on the whole thoroughly committed to using SWIFT messages wherever possible. SWIFT reach is key to the global trade business. 80% of the banks surveyed said that over 90% of their Letters of Credit were sent over SWIFT, with the other 20% of banks sending over 50% of their LCs over SWIFT.

The main reason for not sending over SWIFT is that the counterparty bank is not SWIFT-connected. Lack of counterparty connections is especially prevalent in India, Pakistan and Bangladesh. Some banks have reduced their correspondent lists considerably for KYC reasons, and this may also lead to the need for messaging which is not over SWIFT.



In some cases a bank's internal network is considered a better option – where concentration risk is a concern or use of internal networks results in lower costs.

Fig 1 – Reasons banks do not send Trade messages over SWIFT



- Most banks are centralised on one or two platforms. At the front end systems are bank-branded. Most banks have centralised, or are seeking to centralise, their systems. For new banking groups this is clearly a major challenge. The third party vendors used are, on the whole, global vendors. Some banks are using Bolero.
- All banks are trying to improve automation and speed up workflows, and are constantly looking for ways to do so. At the same time they are realistic about how much can be done in the traditional trade business as it is today.

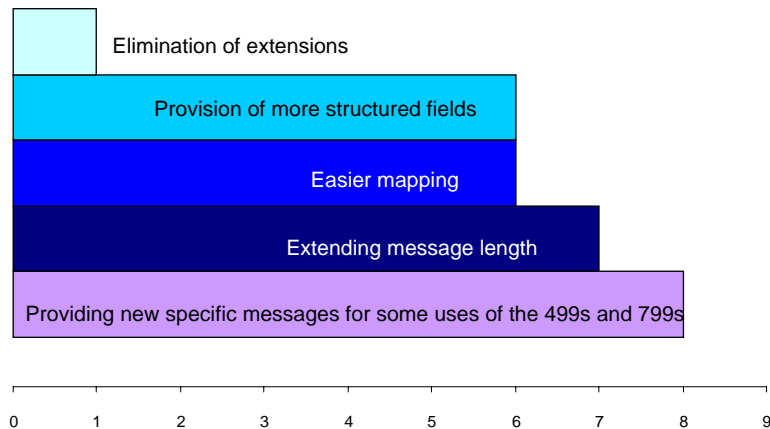
## B Current usage of SWIFT category 4 and 7 bank-to-bank

- In general the banks feel that the business has moved ahead of the messaging. SWIFT messages need improving to be better aligned with the business, There are also issues of validation, with some banks feeling that by following the rules they put themselves at a disadvantage vis a vis their competitors. Guarantees are seen as a complex business, where the messages have not kept up with the underlying business. There is also a need for messages specifically dealing with Standby LCs. Comments included:
  - “Cat 4 is ineffective as a set of messages – it needs a radical review.”
  - “With more information we could use more automated scanning.”
  - “The messages need to carry more information about the parties, e.g. for compliance.”
  - “The structure of the 707 is lousy.”



- More specifically, banks were asked where SWIFT should concentrate its efforts regarding the cat 4 and cat 7 messages. The results:

Fig 2 – Areas for improvement required in cat 4 and 7 messages



- Automation is key to efficient workflows. Automation levels are lower than they should be due to high usage of the free format MT 799 and MT 499 messages. The MT 799 is the most used message in category 7, the MT 499 is the third highest in category 4. In general usage of free format messages falls into 3 categories:

**ADMINISTRATIVE** – tracers, corrections, clarifications, disputes and discrepancies, or where there is lack of clarity on which message to use.

**LOGISTICAL** – where the current message is too short, where the allowed number of extensions has been exhausted, where mapping is difficult, or where mandatory field content is not available and the message is urgent.

**BUSINESS** – where the structured message no longer fits the business, or is too difficult to use.

### C Maintaining FIN cat 4 and 7 or moving to XML

- 50% not keen to move to XML  
50% of the banks surveyed wish to stay with FIN. However, there was a sense that XML would happen some time in the future, and that they would have to move eventually. Several of these banks stated that they could see no business case for moving to XML, but that there could be a technology case. There was no pressure from corporates to move to XML. If there were a move to XML then the complete sets of messages should be redeveloped. Although these banks would wish to postpone using XML, they would be fairly ambitious in terms of a migration schedule when the move takes place. With two main exceptions these banks currently have lower levels of XML usage in-house than the banks which are keen to move.



- 40% keen to move  
40% of the banks interviewed were keen to move to XML. Many of these banks are already using XML internally. They see advantages both for themselves and their corporates in using a single standard which could serve the trade space better. They need more discrete information, and information better suited to current business practice. They want the message fields simplified, and free text fields standardised to reduce discrepancies and increase automation. There were several comments that SWIFT should build on the work done for the TSU, one bank would like all trade messaging to be moved into the TSU as soon as possible. Banks keen to move are clear about their timeframes for moving to XML, know their current usage of XML in-house, and have definite views what their XML usage should be 3 years hence.
- 10% of the banks surveyed had no view.
- Timing - Migration to start in 3 years  
Whilst there are many differing opinions the general view is that the traditional trade business will start migrating to XML in 3 years' time. Banks also indicated that a 3 year migration period - from starting to send the XML messages to removal of the MTs - would be appropriate.

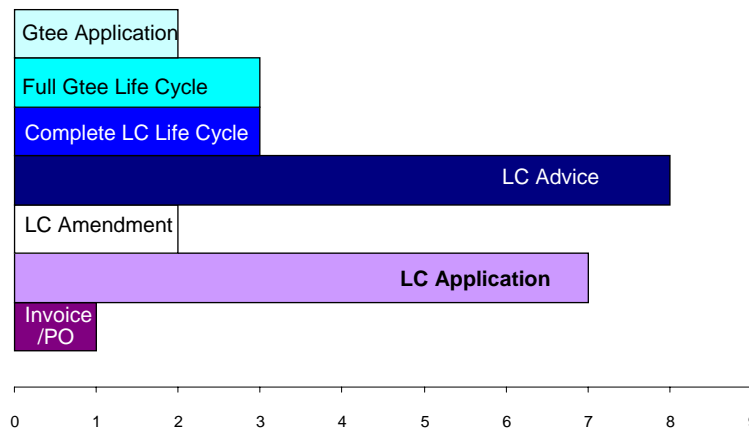
### **D Corporate-to-bank messaging**

- Banks are willing to support corporate to bank Trade communication over SWIFT to meet client demand. The current FIN standards do not satisfy corporate needs as they were developed for bank to bank. In Germany DTA messages are used. These are based on SWIFT messages, but cater better for their corporates' business needs. The main drawback is that this is a German standard, and their key clients are multinationals.
- One of the key drivers for banks' willingness to use SWIFT for corporate to bank trade business is to counter the pressure to use other suppliers where there is an associated cost. SWIFT is seen as a suitable alternative.
- Banks report that most of their corporates are looking for a worldwide standard that they can use with all their banks. Banks in turn understand that they can no longer expect their major customers to bank only with them, and must therefore respond to this demand.
- When it comes to which standard to use going forward for Cat 7 messages in a corporate-to-bank context banks indicate an overall desire for ISO 20022, but there is also a wide "No preference" vote. Current widespread use of converters was one bank's reason for this. Ultimately large corporates tell banks how they will submit data and banks deal with it. In one case Bolero XML was mentioned as having more granularity than ISO 20022.
- Banks would prefer their corporate customers to use fewer channels for data submission, given their own bank objectives which often include cost reduction, improved STP, streamlined systems and a single standard.



- The survey asked the banks which messages should have a corporate/corporate aligned version. Answers are independent of format – FIN or XML. The LC Advice is clearly a priority. The “complete LC Life Cycle” and “full Guarantee Life Cycle” choices overlap and reinforce the individual message choices.

Fig 3 – Trade messages which should have a corporate/corporate aligned version



### 3.2 FEEDBACK FROM CORPORATES

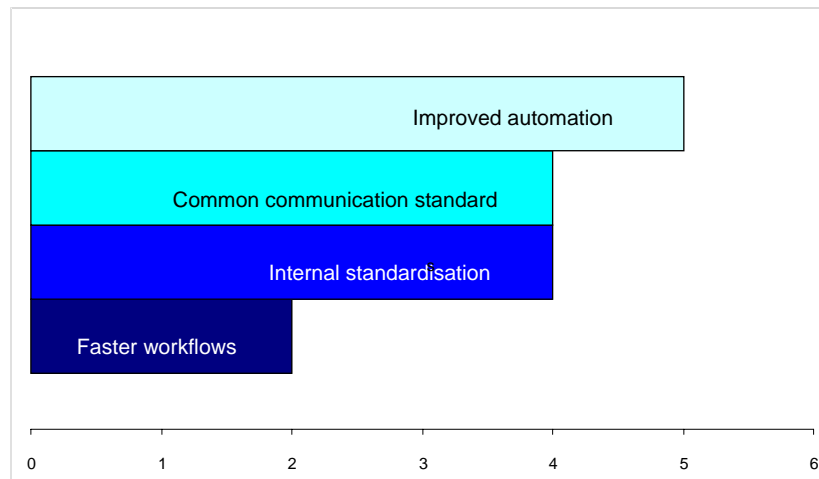
The corporates surveyed were major firms from Europe and Asia - 3 engaged in import and export, 1 in import and 1 in export. 4 out of the 5 corporates are SWIFT- connected. 4 out of the 5 conduct over 85% of their trade over open account, one does not use open account at all. This corporate conducts 50% of its trade via LCs. The number of banks used for trade varies between 1 and 42. LC advices received per year vary between 50 and 25,000, LCs per year applied for between 20 and 2500.



## A Drivers for joining SWIFT

Improved automation, common communication standards, internal standardisation and faster workflows were the main drivers cited for corporates wishing to join SWIFT. Corporates' order of priority is (1) Foreign Exchange and Cash then (2) Trade and Securities. As many corporates have moved forward with Cash they now want progress on Trade.

Fig 4 – Main drivers cited for corporates wishing to join SWIFT



## B Corporate requirements from their banks regarding trade:

- Corporates' views echoed the banks' view for corporate to bank messaging (see fig 3 above) in that they wish to be able to receive a notification of LC Advice. They also requested the LC application.
- One corporate requested "Complete electronic correspondence with banks regarding LCs, guarantees, silent confirmations, and structured export finance".
- Corporates need an integrated system on a worldwide standard and one which will help to reduce manual handling.

## 3.3 FEEDBACK FROM VENDORS

The vendors surveyed all have SWIFTReady Trade Finance Gold Label products. In addition they either are or will soon be accredited for the TSU. All have stated their commitment to SWIFT Trade and Supply Chain services going forward.

The trade finance application vendors' perspective is that they are driven by their bank customer demands. However it is clear to them that ultimately the corporates are driving banks' agendas.

## A Vendor objectives in the trade space

- Support convergence of trade and payments in the open account space, given the general move to open account Supply Chain finance.



- Enable better operational efficiency for their customer banks:
  - Vendors' customer banks are looking for better operational efficiency to align with new organisational structures. For example they need to be able to process globally, when customer input comes from one place, and processing is in another. Increasingly processes take place in different logical and physical locations across the globe.
  
- Enable banks' continued drive for standardisation:
  - Banks are looking to integrate their front and back ends, and are pushing for interconnectivity with other networks and other parties in the trade processing cycle. Standardisation enables increased levels of automation and straight through processing, and is therefore seen as a priority.
  
- Focus on a range of technology requirements:
  - The last 2 years have seen more and more front end projects, with the level of sophistication on the front end increasing, based on thin-client (browser) technologies.
  - Banks are working on getting closer to their corporates, for example, in facilitating their Purchase Order preparation. Corporates' data is being directly integrated into bank workflows.
  - There is also an increasing interest in bank middle office control, i.e. a layer in the bank before the back office processing. This both helps banks' security, and controls bank exposure in terms of credit risk.
  - Vendors note that applications which help the banks with compliance and risk management are increasingly in demand.

### **B SWIFT messages – customer requested requirements in the trade finance area**

- Enabling better automation:

SWIFT should make it much easier to automate messages throughout the life cycle of an LC or a guarantee. More attention should be paid to how the messages link, and there should also be links to the payment in order to facilitate reconciliation.

Two examples:

  - the current structure of the MT 707 makes it difficult to automate from the MT 700.
  - With more discrete fields in the MT 700, it would be easier to meet corporate customer requirements when uploading and working with PO data.
  
- Increase validation:

An example: SWIFT prescribes a maximum of 3 message extensions (MT 701) to the MT 700, but this is not validated, and therefore not always adhered to. Banks complain that they can find themselves at a disadvantage if they adhere to the rules.
  
- Widen the range of messages  
Corporate to bank messages are needed, but there should also be a wider range of bank to bank messages to cover the whole of the trade cycle. Some existing messages need urgent attention - the MT 760 (Guarantee) was cited as a priority.



**C Vendor quotes**

- On moving to XML:  
"It would be easier if everyone used XML. We need simplicity and efficiency."  
"Corporates are fed up with FIN – they would like to see XML."
- On ISO accreditation  
"...is as strong a marketing tool as SWIFT itself."
- On using TSU experience  
"We strongly recommend that SWIFT build on its TSU experience – traditional trade messages should be aligned."
- On vendor partnership with SWIFT  
"We appreciate being heard on these topics, and hope that the input provides added value for SWIFT. It is a sign of true partnership."  
"As a "gold" label company, we would like to be part of the specification exercise."

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