



Bank Payment Obligation

A new payment method

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- **Digitisation of trade with BPO - a new payment method in your sales contract supported by ICC rules and electronic data matching**
- **Benefits for buyers and sellers**
- **A 3-corner model vs. a 4-corner model**
Example: Approved Payables Finance (APF)
- **BPO market adoption and case studies**



SWIFT operates
the global bank-owned
secure financial
messaging platform

25.8 million

FIN messages peak day (2014)

5.6+ billion

FIN messages per year (2014)

11%

Increase in FIN traffic (2014)

10,800+

SWIFT users

200+

Countries and territories

SWIFT is a member-owned cooperative through which the financial world
conducts its business operations with speed, certainty and confidence.



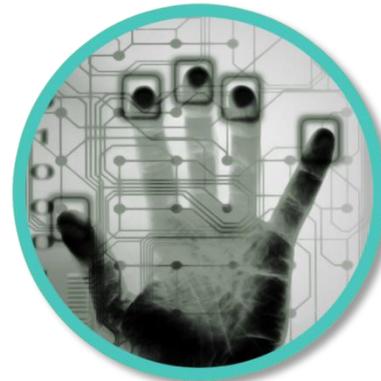
« SWIFT for Corporates » portfolio



Secure financial
connectivity



Automation and
compliance



Identity and
mandate
management



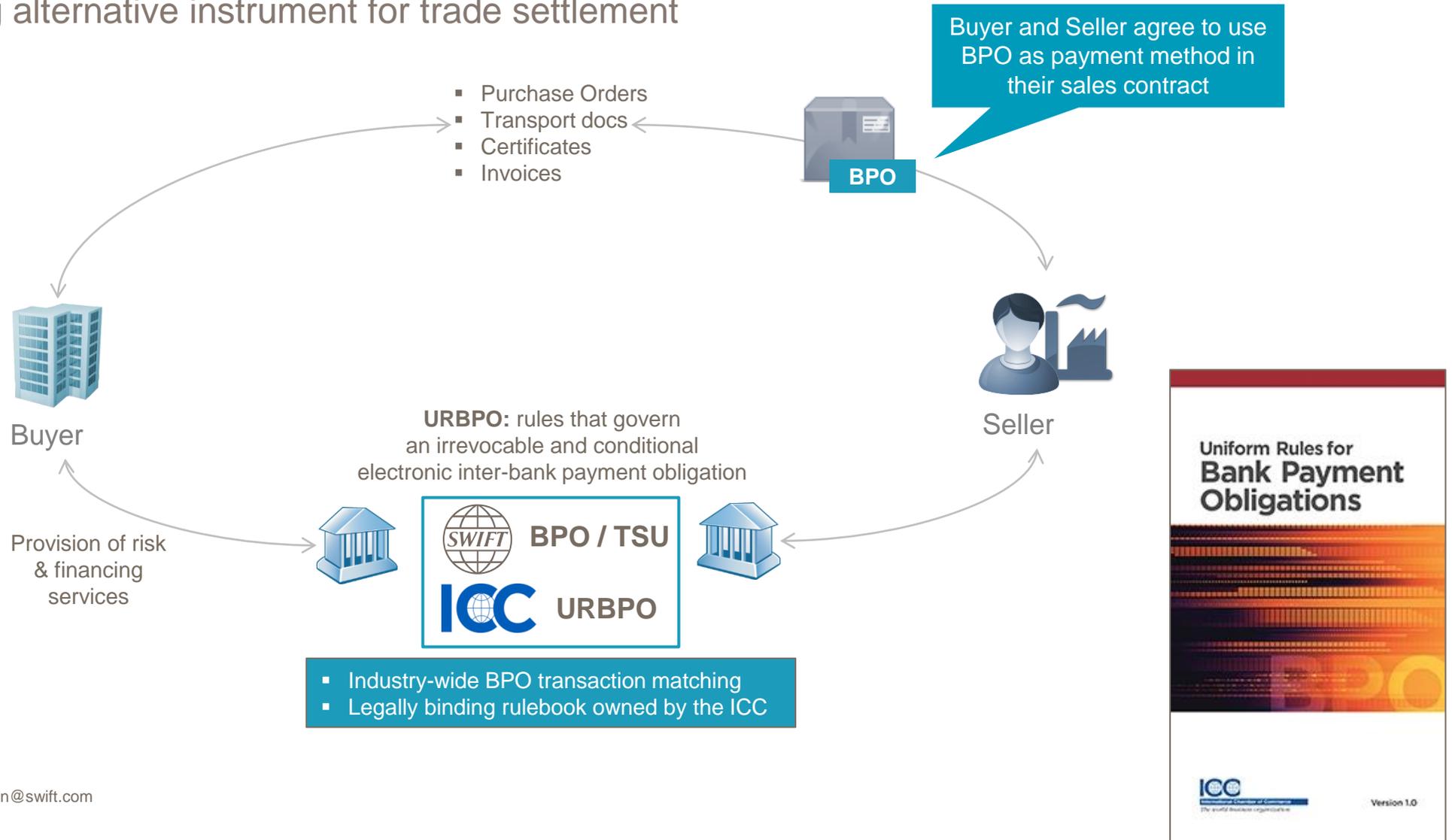
Certainty and
efficiency in the
supply chain

SWIFT's Training, Consulting and Business Intelligence Services



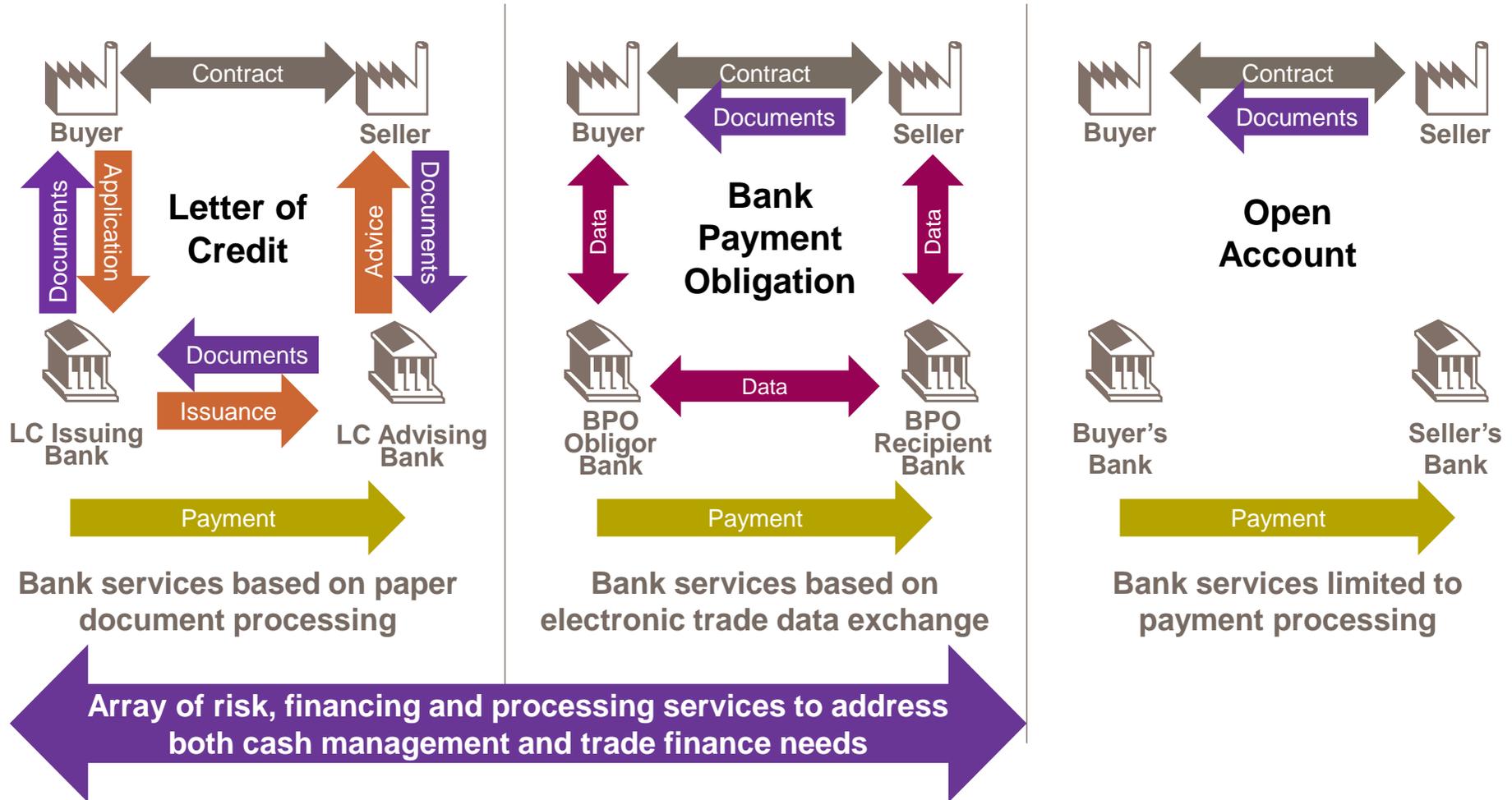
The Bank Payment Obligation (BPO)

A strong alternative instrument for trade settlement



The Bank Payment Obligation

A new payment method between L/C and open account



The Bank Payment Obligation (BPO)

What is BPO?

The Bank Payment Obligation is a new payment method based on data matching which can be used for risk mitigation and financing!

What is new?

For the first time an open account payment obligation can be confirmed by banks in order to get financed. The ICC supports the market launch with the release of unified rules (URBPO).

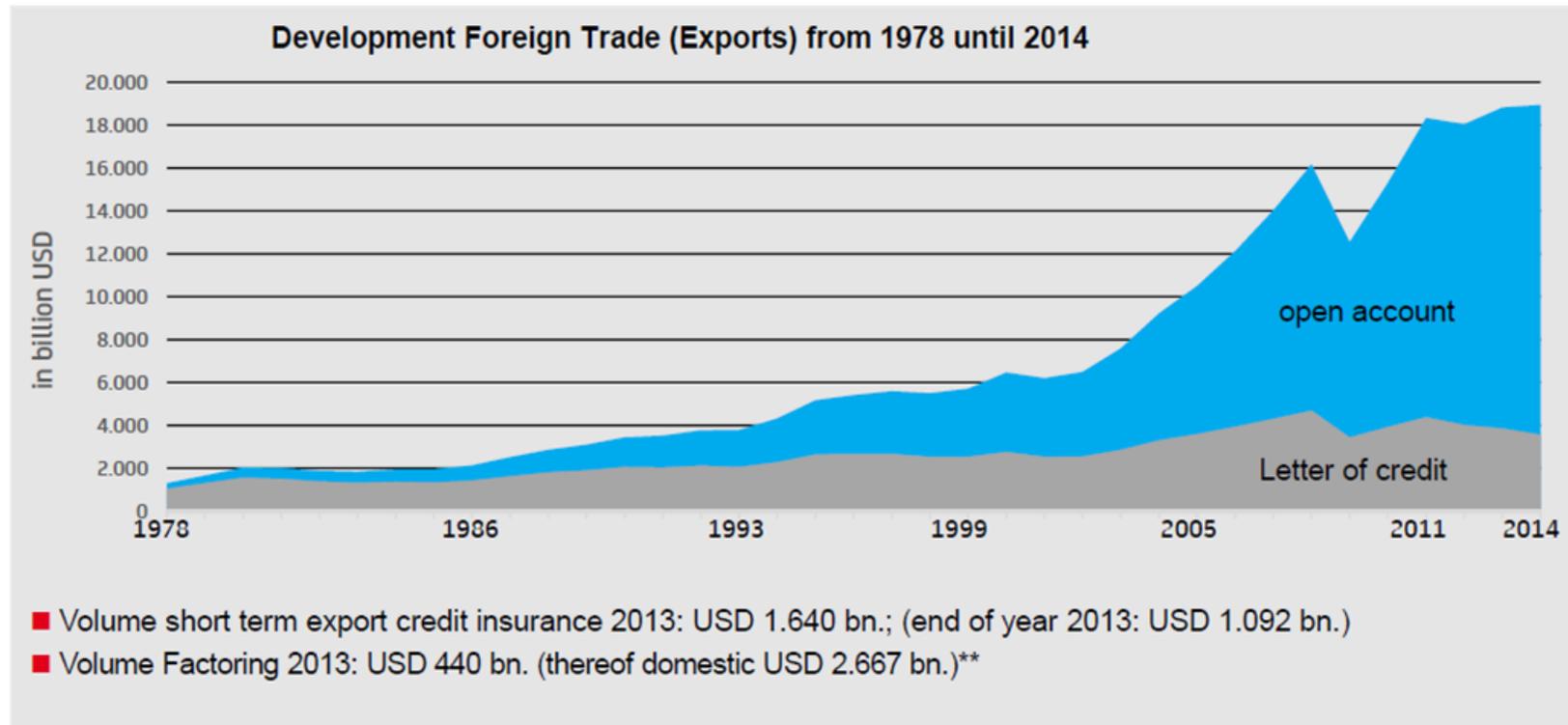
What are the general criterias of a BPO?

irrevocable
concret & conditional

„A Bank Payment Obligation (BPO) is an irrevocable and independent undertaking of an Obligor Bank to pay or to incur a deferred payment obligation and pay at maturity a specified amount to a Recipient Bank in accordance with the conditions specified in an established baseline.“
(Extract from the ICC URBPO)



BPO the answer to the growing demand for a straight through processing, risk mitigating and liquidity provisioning instrument



World trade volumes have seen a startling increase in open account transaction over the recent years. Already today more than 80 % of the total world trade volume (export) is settled by clean payment. This impressive ratio is expected to grow even further in the future. As a consequence banks are compelled to offer their corporate clients products that support fully automated processing as well as cost savings combined with payment assurance and financing options.



Win-win benefits for buyers and sellers alike



Transaction risk mitigation	Payment assurance through preferred bank
Early payment to support financially critical suppliers	Earlier funds collection and FX risk mitigation
Negotiate better trade terms	Optimize working capital thanks to earlier settlement
Streamline operations and reduce costs	Improve transaction visibility and traceability
Improve order-to-cash process	Improve A/R reconciliation
Flexible order of goods	Increase competitiveness

Key roles and responsibilities for BPO

Buyers and Sellers

- Negotiate the merchandise details (description, quantities, unit price, ...)
- Agree on the amount of the payment obligation and settlement/charges conditions
- Define the payment terms: on receipt of the invoice, on delivery or deferred
- Agree on the expiry date, the shipping terms and latest shipment date

Obligor bank(s)

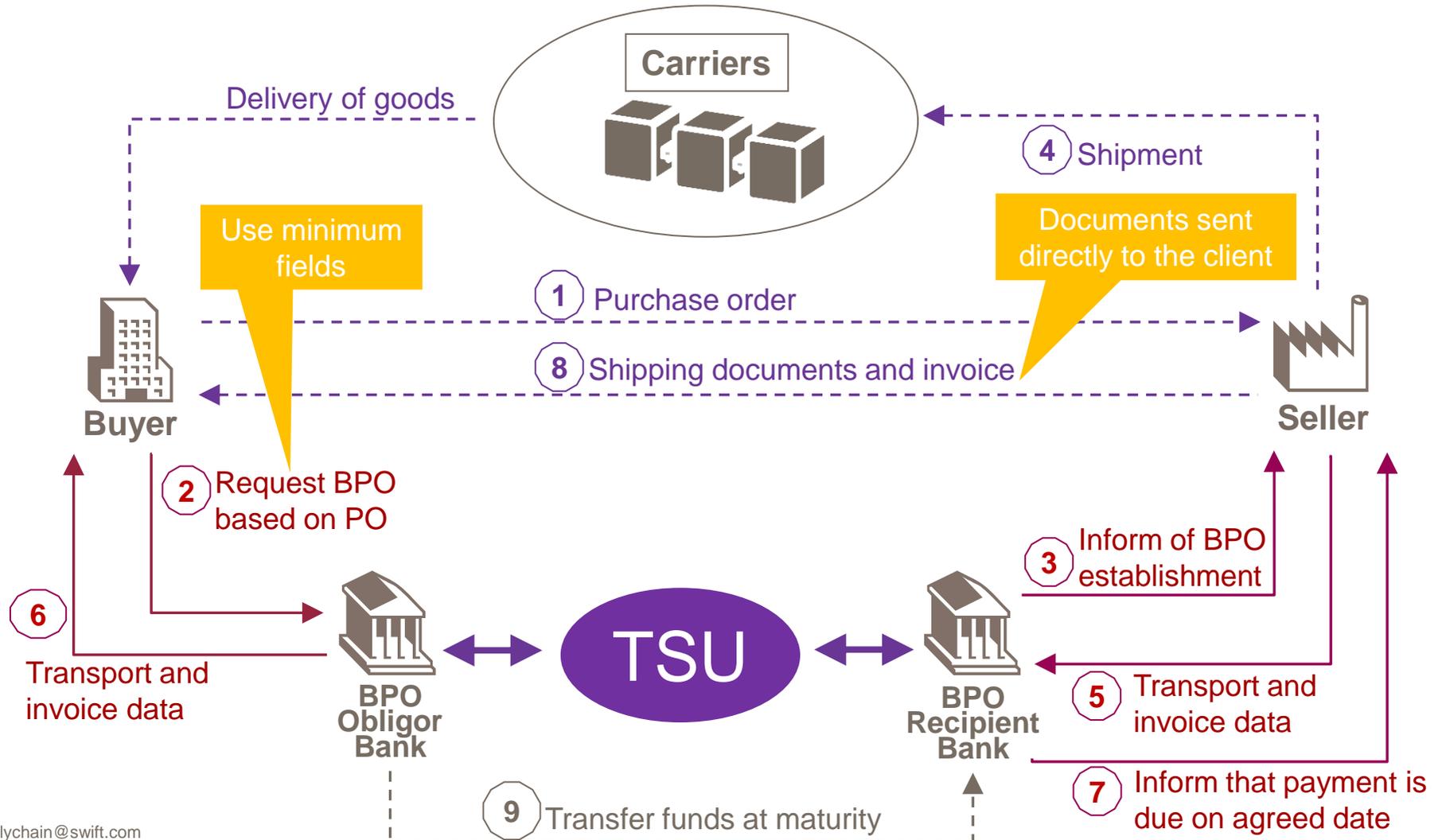
- Analyse the risk and manage internal compliance (KYC of the buyer)
- Price the BPO to the Buyer
- Propose the BPO in favour of the Recipient Bank (Seller's Bank)
- Settle the BPO on the due date, subject to matching conditions having been met
- Provide optional financing services to the Buyer, as required

Recipient Bank

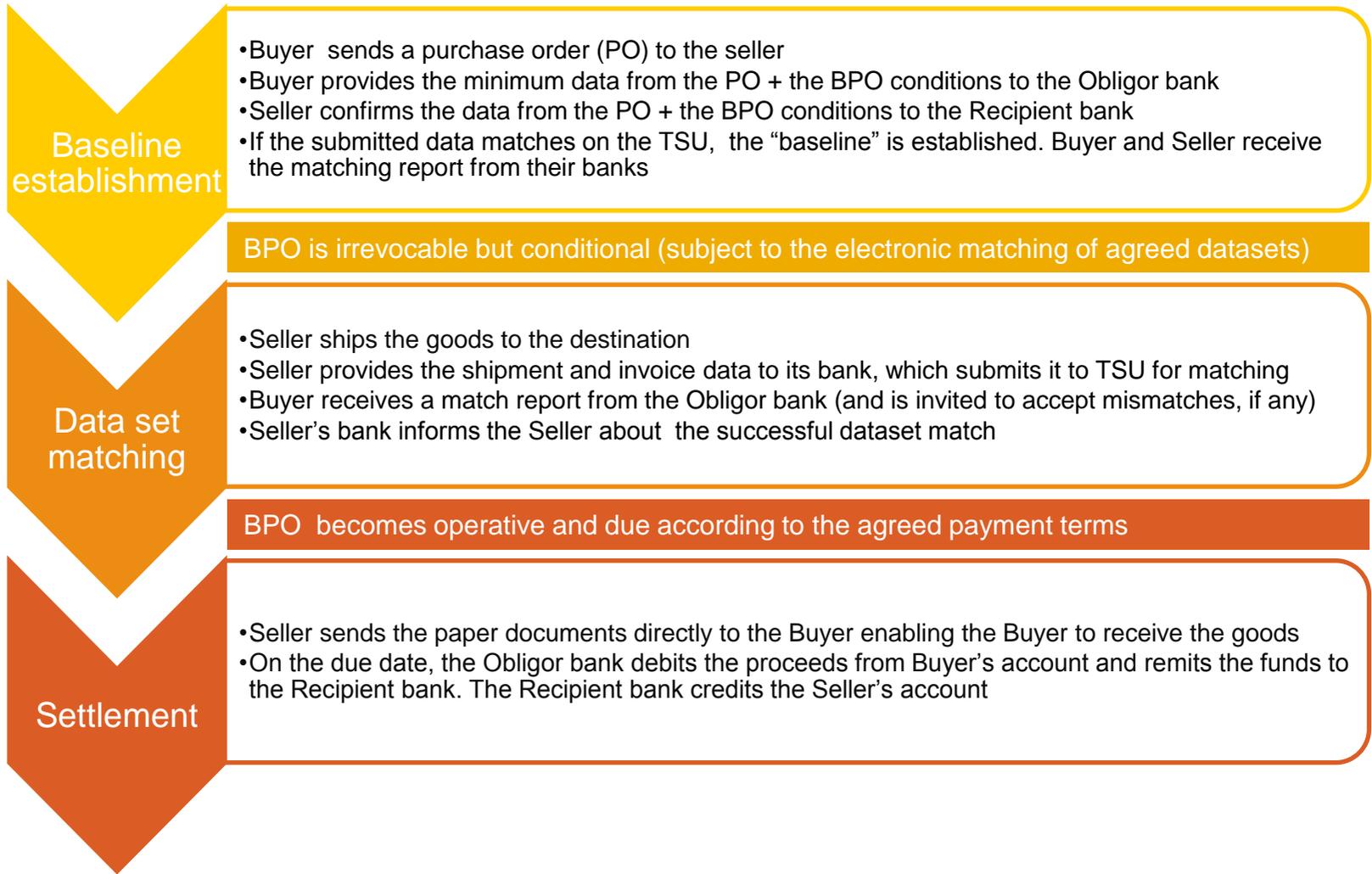
- Analyse the risk and manage internal compliance (KYC on the Seller)
- Validate the Seller's data set submissions
- Price the BPO-based services to the Seller
- Advise/confirm the BPO to the Seller
- Provide optional financing services to the Seller, as required



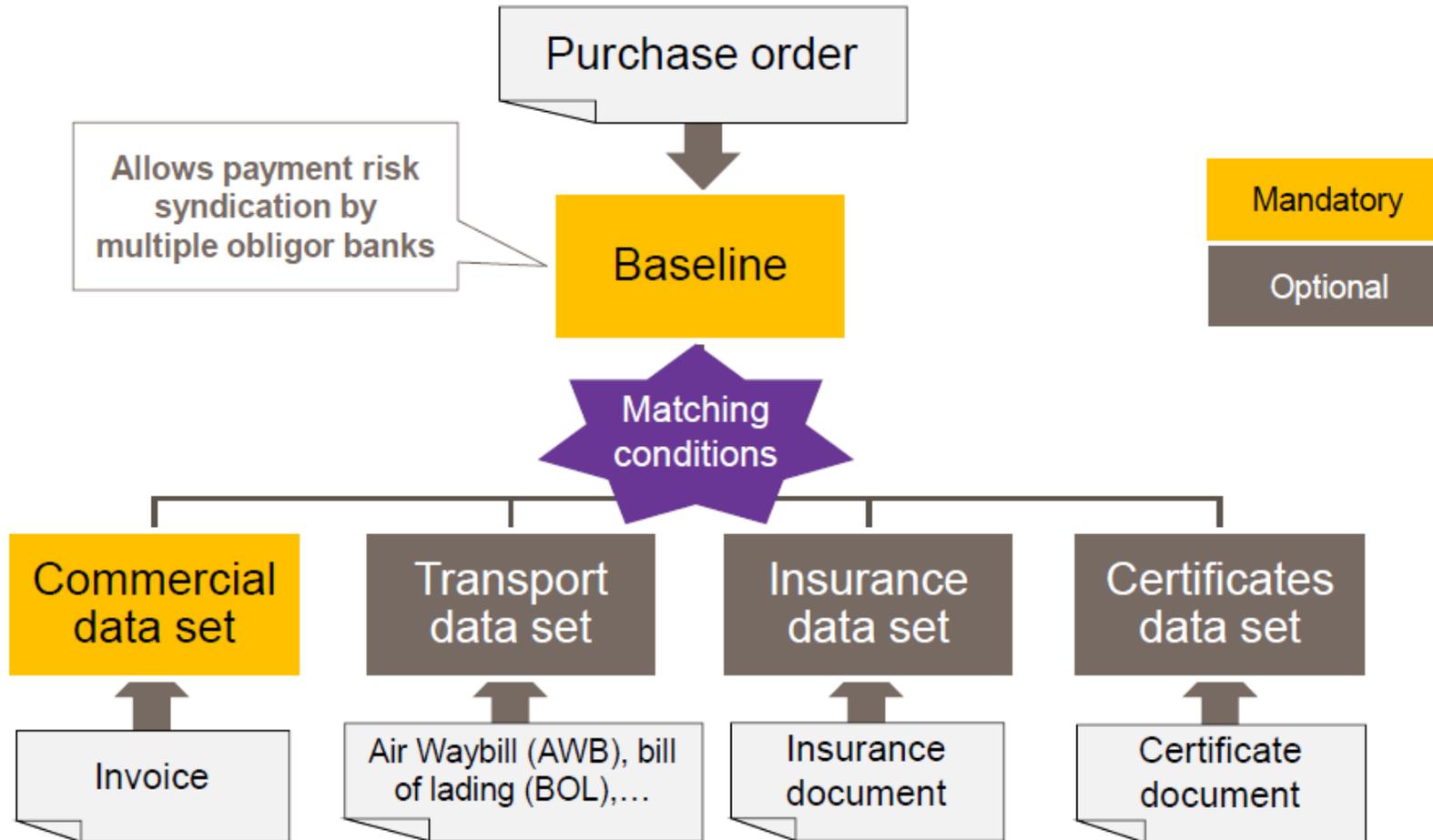
BPO flows for data, documents and goods



BPO in 3 steps

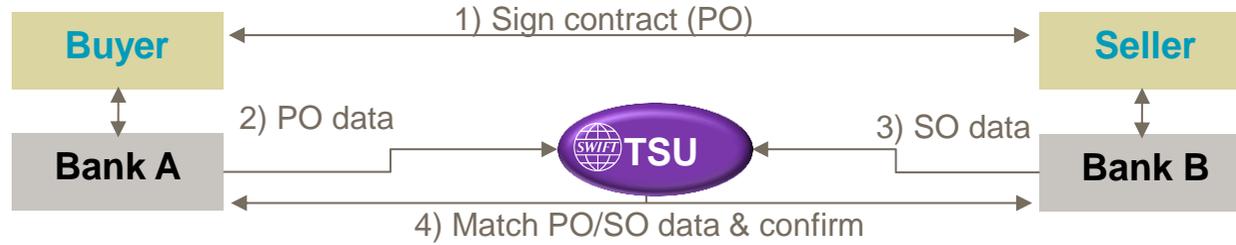


The baseline gathers the matching conditions using data extracted from trade documents



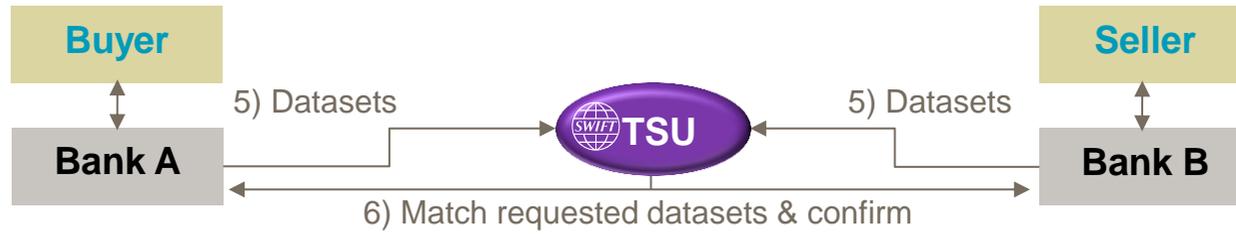
The BPO builds upon electronic data matching

Matching of contract data



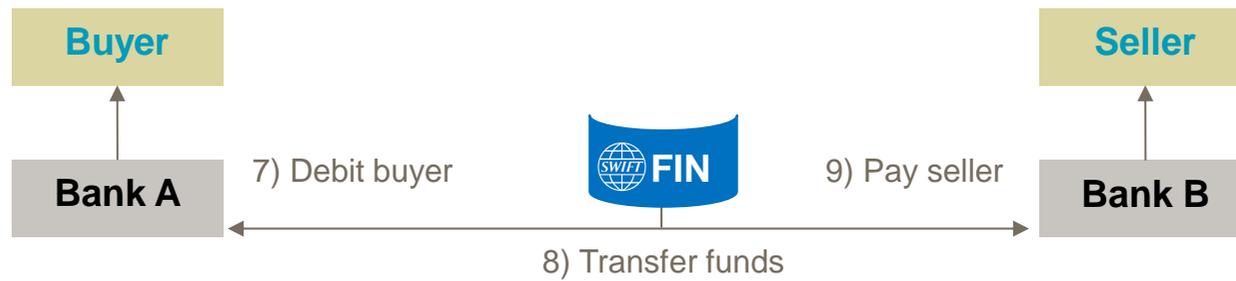
BPO is established

Matching of data



BPO is due

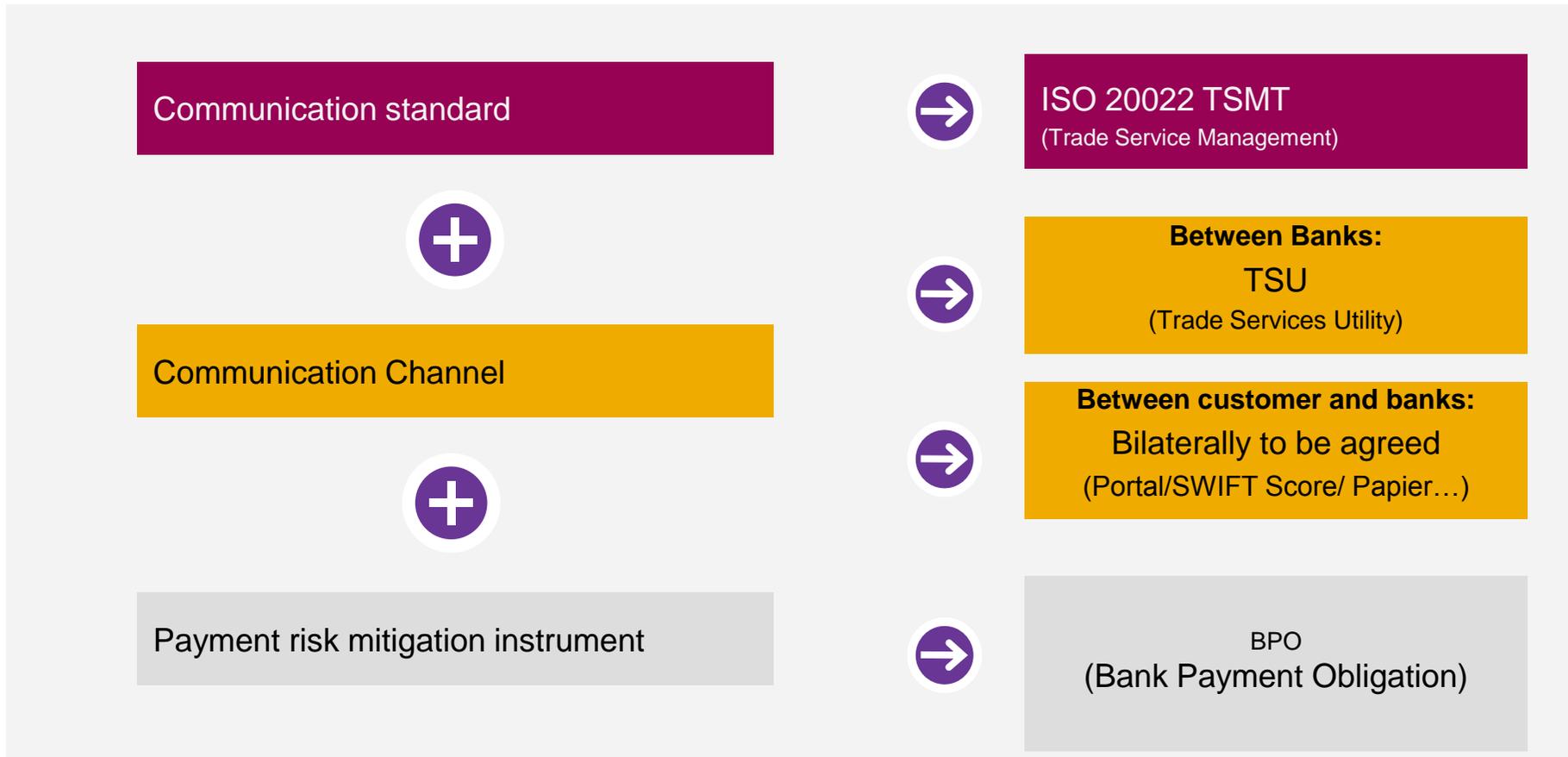
Transfer of funds



Trade is settled



Components for electronic matching of commercial trade data

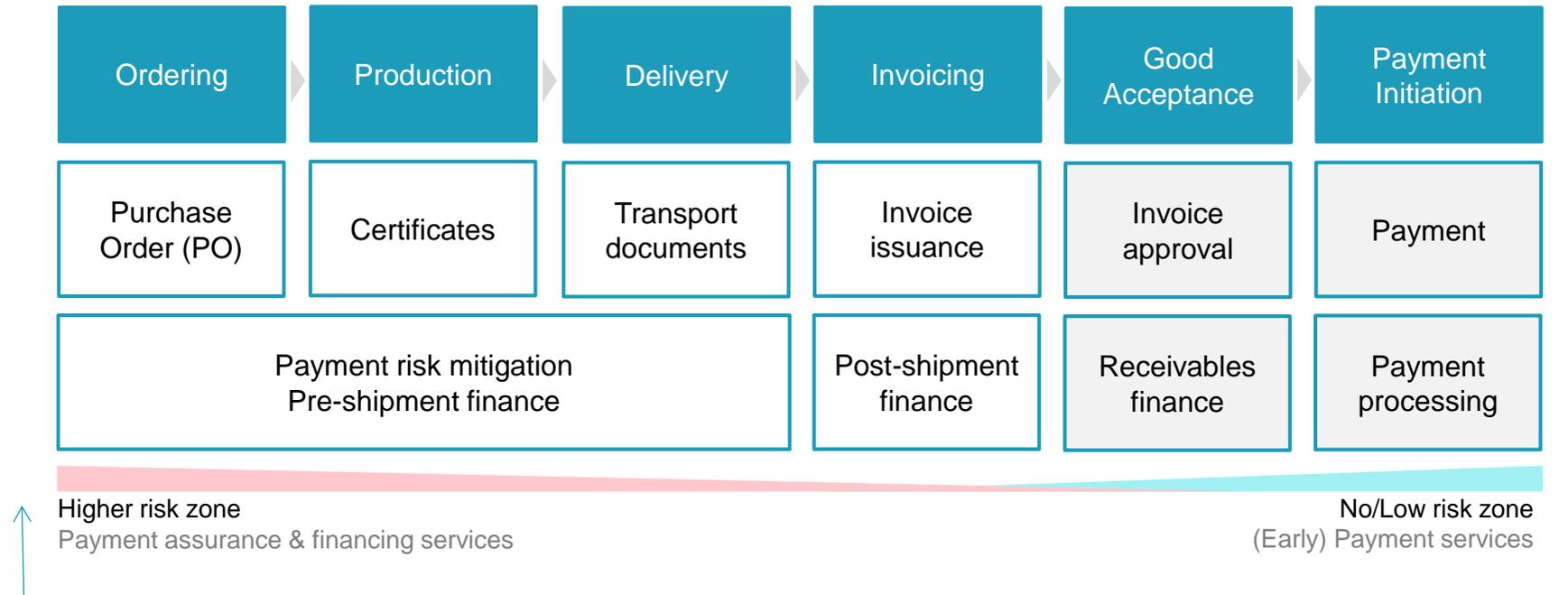


Benefits of the BPO



Supply chain risks

When dealing on open account trade terms, both buyers and sellers are faced with a series of risks and financing needs that banks are best placed to deal with



By getting involved in open account trade relationships as early as possible, banks can efficiently secure and finance those transactions



BPO benefits



Risk mitigation

Benefits for:

Importer

Possibility to get goods earlier

Increased flexibility vs L/C when changing deal parameters

Improve relationship with exporter by diversifying settlement method and add flexible options

Exporter

Delayed and non-payment risk mitigation

Safer than open account payment

Credit risk is transferred from importer to the obligor bank or confirming bank



Payment assurance

Benefits for:

Importer

Offer payment assurance to my supplier and confirm the purchase order -> negotiate better payment terms

Control payment time execution

Avoid advance payments

Exporter

Certainty to be paid on time
-> improve liquidity forecasts

Early settlement
(if “at sight”)



Improved operational efficiency

Benefits for:

Importer

Easy procedure to issue BPO

Reduce operational burden of treating complicated L/C and trade documents

“Just in time” orders to improve inventory management and avoid storage costs

Both

Improve visibility and traceability

Smooth reconciliation of payment & A/P or A/R

Electronic matching of structured data is faster than manual examination

Exporter

Documents sent directly to importer and kept outside of the banking system

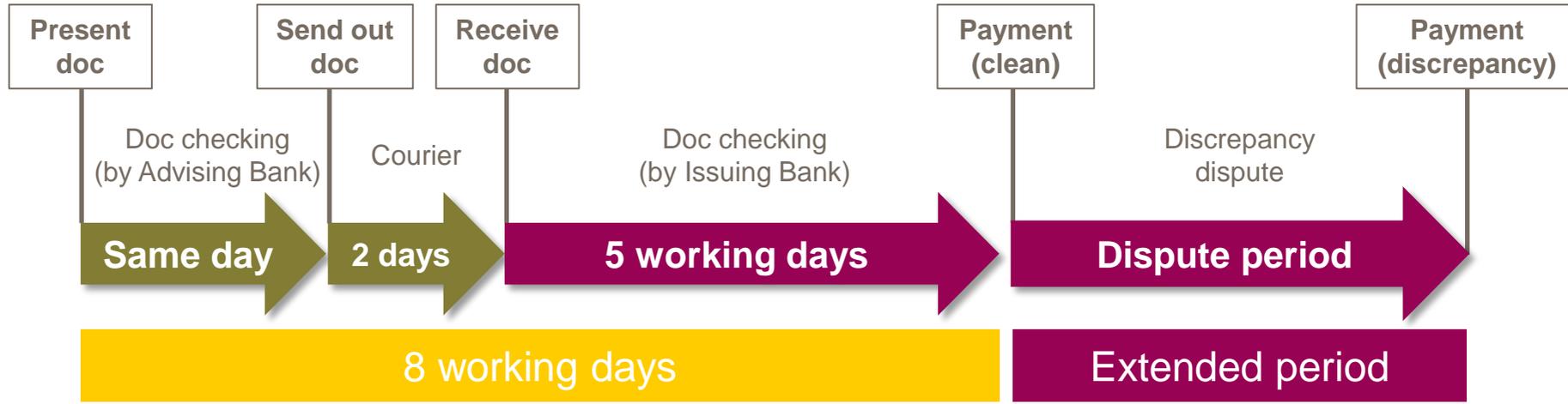
Reduce the risk of discrepancies, limit to relevant trade information only

Reduce discrepancy workload

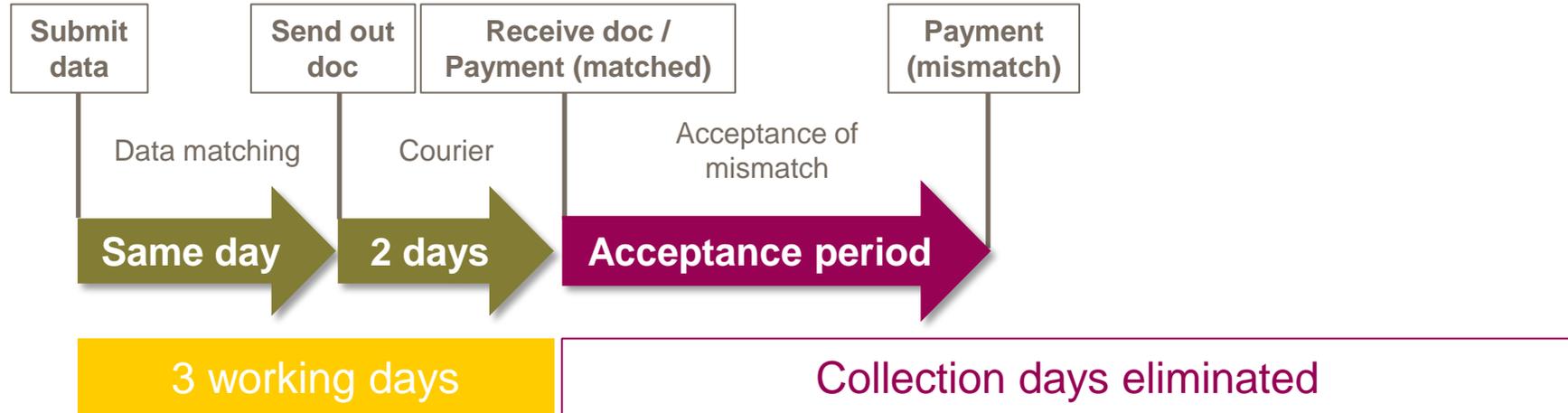


Time savings and efficiencies thanks to BPO

Sight Letter of Credit



Bank Payment Obligation



On-demand financing

Benefits for:

Importer

Optimize use of banking lines

Increase DPO

Extend payment terms

Shift funding role to banks

Both

On-demand financing

Exporter

Decrease DSO

Pre-/post shipment finance

Alternative to forfaiting



A 3-corner model vs. a 4-corner model

Example: Approved Payables Finance (APF)



What is Approved Payables Finance (APF)?

From the Global Supply Chain Finance Forum (2015)

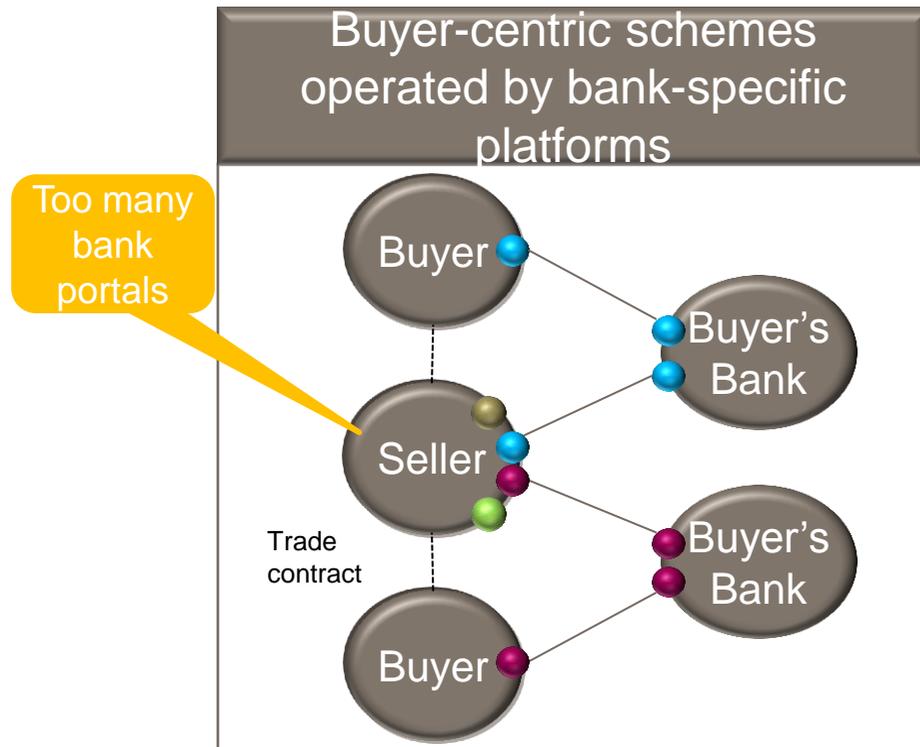
Payables Finance provides a supplier with the option of receiving the discounted value

- of an invoice prior to its actual due date or
- of an account payable due to be paid by a buyer to the supplier at a future date.

Synonyms:

Supplier Finance, Approved Payables Finance (APF), Confirming, Confirmed Payables, Reverse Factoring, Supplier Payments, and Buyer-Led Supply Chain Finance *or just* Supply Chain Finance (SCF)

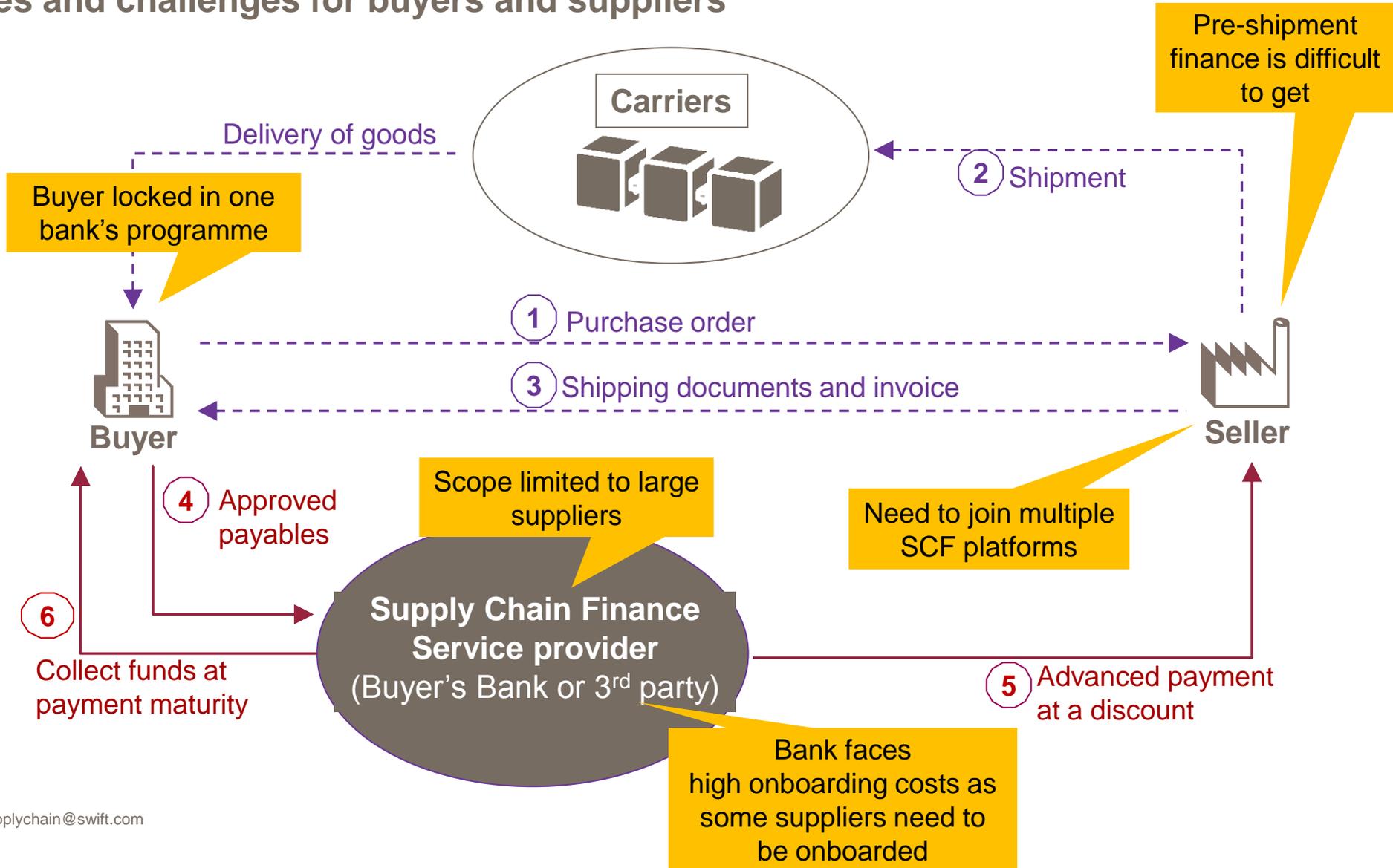
Current APF programmes have been designed in a buyer-centric way (3-corner)



Challenges

- Sellers need to connect to various SCF portals operated by the buyers' banks
- Buyers' banks face new supplier onboarding and KYC challenges leading to much higher costs than ever before
- SCF services are often limited to approved payables finance where suppliers often need purchase order finance
- Bank- or vendor-specific formats increase costs for all and limit opportunity for automation

Issues and challenges for buyers and suppliers

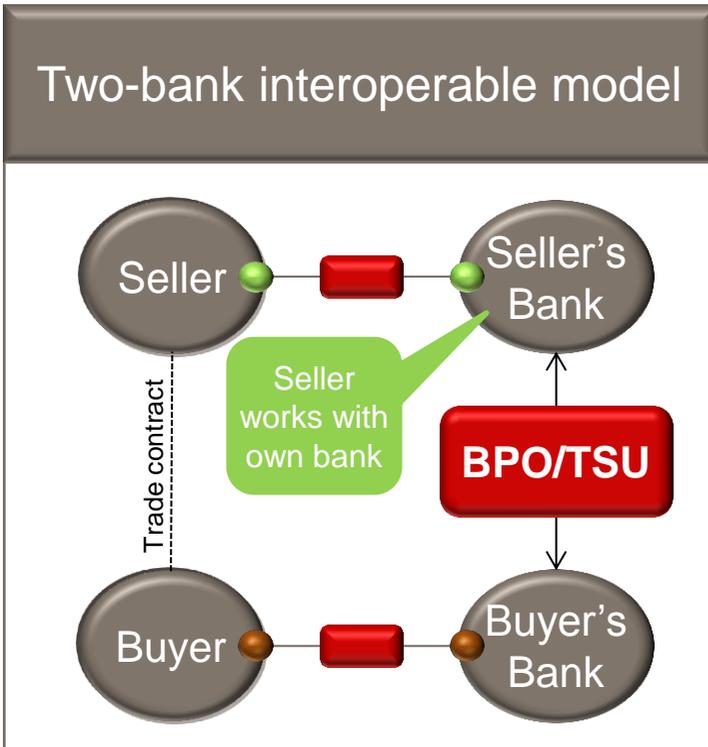


Challenges of current APF set-ups

Challenges for buyer	Buyer's key requirements	What if (supplier view)
Seller needs to join multiple SCF platforms	How can I quick start the Approved Payables Finance?	What if my key buyers all use a different bank – do I need to join as many platforms?
Buyer's bank faces high onboarding costs (KYC)	How long does it take to on-board my new suppliers?	What if the bank of my buyer stops providing such service or leave my own geography?
SCF services limited to approved payables finance	How can I scale my financing support towards key suppliers?	What if I need to finance my production based on PO finance?
Buyer locked in one bank's programme	What if my bank does not cover or is leaving the geography of some of my suppliers?	Should I repeat the whole onboarding process with the new bank chosen by my buyer?



BPO enables two-bank interoperable model



Benefits

- Sellers get APF services from their own (local) bank(s)
- Seller's bank takes risk on buyer's bank, not on buyer – no need for KYC between buyer and seller's bank
- Buyer's bank commits to pay seller's bank on due date – no need for KYC between buyer's bank and seller
- No supplier on-boarding needed as banks only deal with their respective clients
- SCF services scalable to pre/post-shipment finance and payment assurance
- ISO 20022 industry standards facilitate adoption and end-to-end automation by all

BPO market adoption and case studies



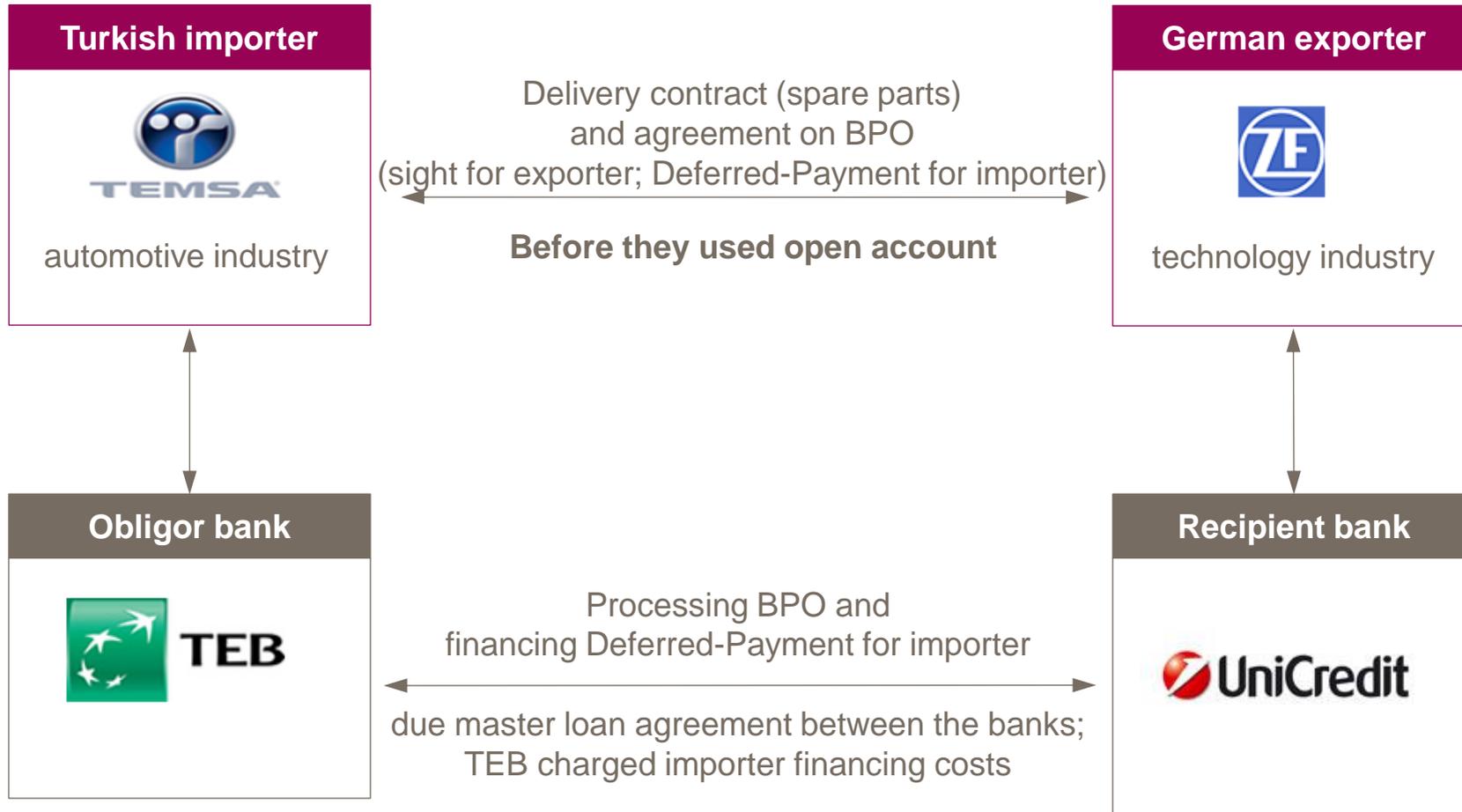
Insert here slides from latest BPO Market Adoption deck



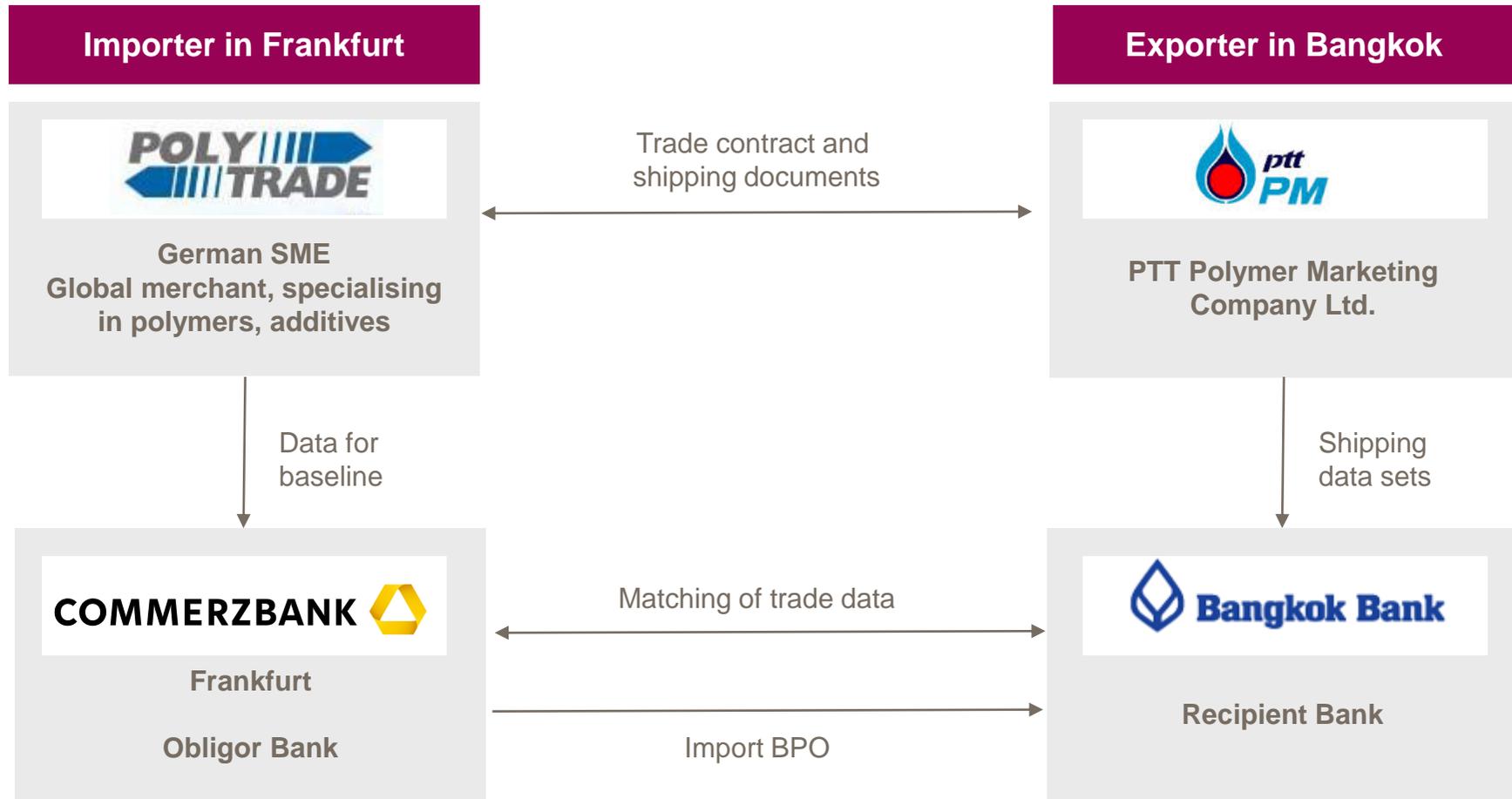
Case study: “The first open account BPO”



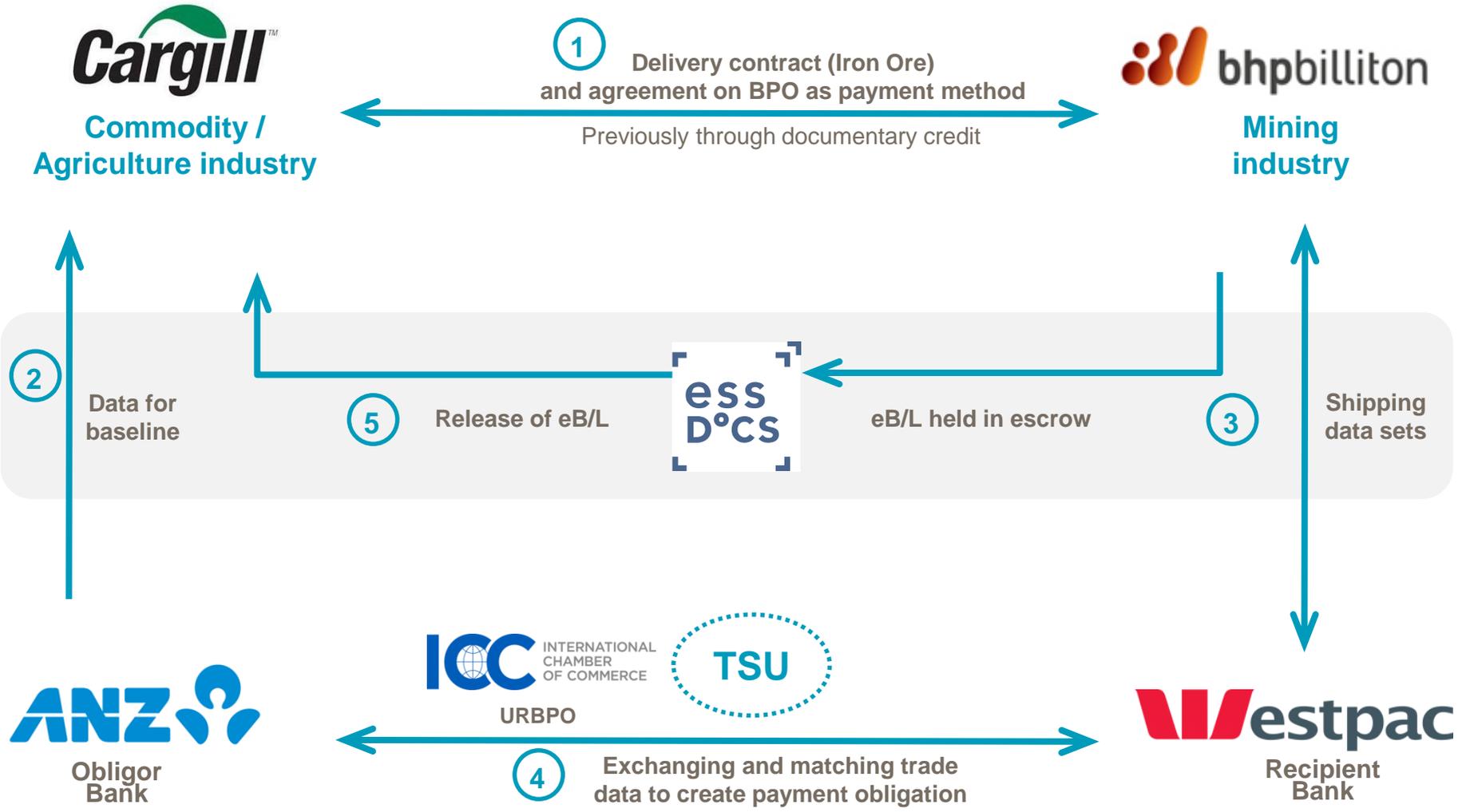
Case study: “Coming from open account”



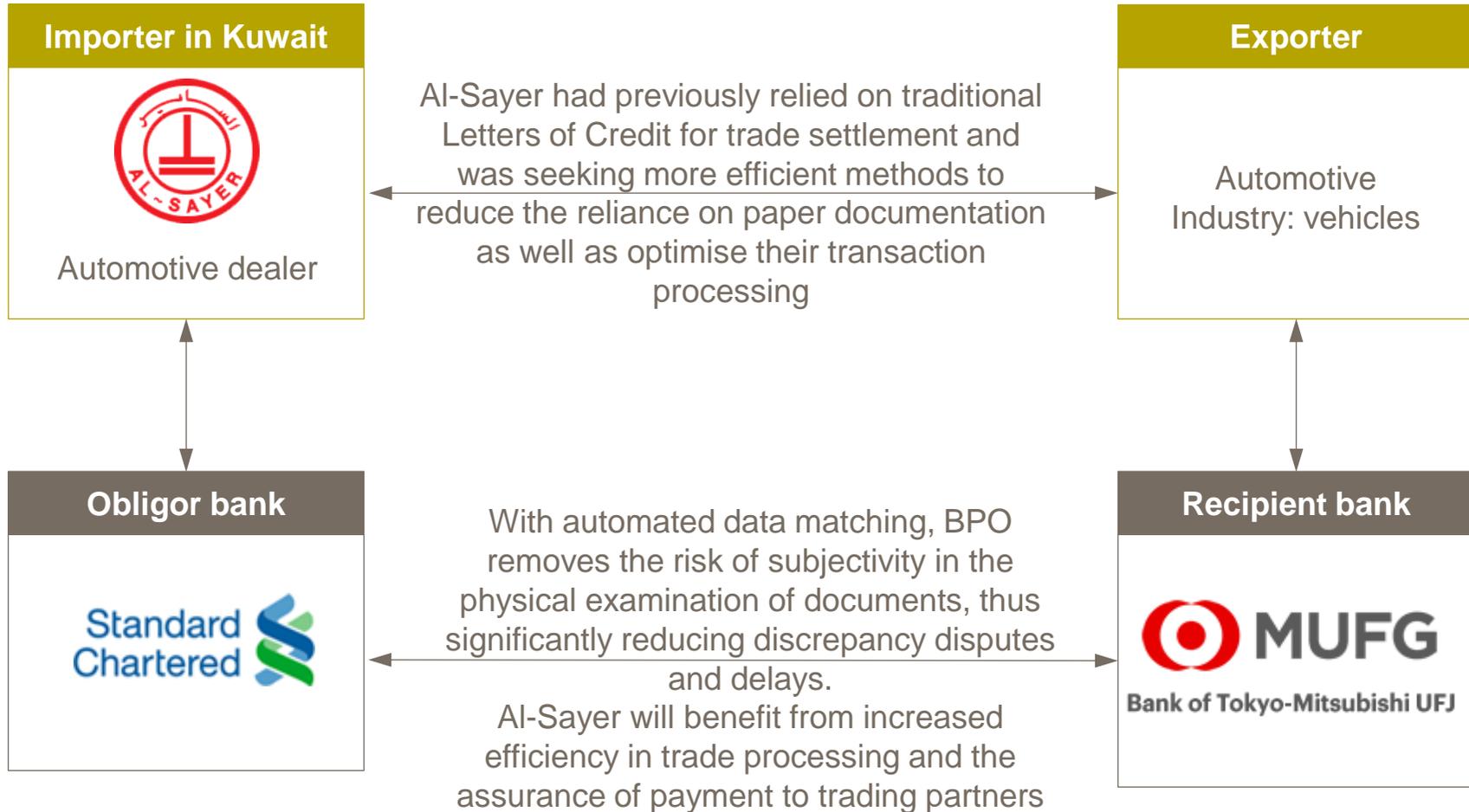
Case Study - "Optimisation of internal payment handling processes"



April 2015 – First ever BPO with eB/L



First end-to-end electronic transaction in the Middle East automotive sector for Al-Sayer



UniCredit – A leading European bank ready for BPO

Clients feedback

My client asked me whether my bank is ready to offer BPO.

From SEPA we know "XML-format", so it is no problem.

When can I use the product? Our clients ask for it.

We would like to have easy processes, but do not want to miss out on risk mitigation. BPO is a good opportunity.

We need the documents for urgent shipping; the goods often arrive faster than the documents.

Which banks are BPO-ready now?

The "pilot-case" was successful. Lets go for the next!

BPO is definitely better than to deliver on open account.



A NEW DIGITAL ERA FOR TRADE

J.P.Morgan

[Link to full article from J.P.Morgan \(July 2015\)](#)

Highlights

- Each year, Fortune 500 companies incur more than \$81 billion of unnecessary supply chain and working capital costs due to inefficiencies and lack of visibility.
- Digitization provides cost and time savings and boosts productivity, while secure platforms provide an extra layer of protection against fraud.
- The consumer space and physical supply chain has already been transformed by digital innovations. Now, it's time for the financial supply chain to evolve.
- The framework is already in place to facilitate digital trade, but there must be a paradigm shift in bank and client business behavior.



\$81
billion

in working capital is locked up in the financial supply chain.

BPOs offer efficiency gains, working capital improvement and cost savings.



staff cost reductions of up to

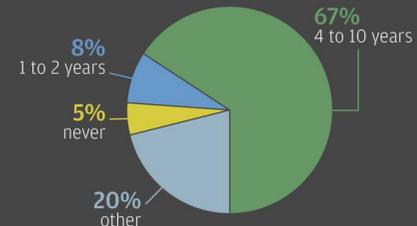
30%



banking fee reductions

up to **50%**

“...how long do you think it will take trade to become mostly digital?”



Questions? Comments?



BPO is...
a few fields
in a message

Payment Obligation ? Created: 1

BUYRUS6S SELLGB2L 125000 EUR 2013-04-01

Details

Obligor Bank: BUYRUS6S ?

Recipient Bank: SELLGB2L ?

Amount: 125,000 EUR ?

Percentage:

Charges Amount: ?

Charges Percentage: ?

Expiry Date: 2013-04-01 ?

Applicable Law: ?

Settlement Terms ?

Payment Terms ? Created: 1

Other Payment Terms:

Payment Code: EMTD_EndOfMonthOfDelivery ? Number of Days: ?

Percentage: 100 % ?

Amount:

Commercial Dataset Required ?

Submitter ? Created: 1

BIC

SELLGB2L

Transport Dataset Required ?

Submitter ? Created: 1

BIC

SELLGB2L

Insurance Dataset Required ?

Certificate Dataset Required ? Created: 0

Other Certificate Dataset Required ? Created: 0

Goods ?



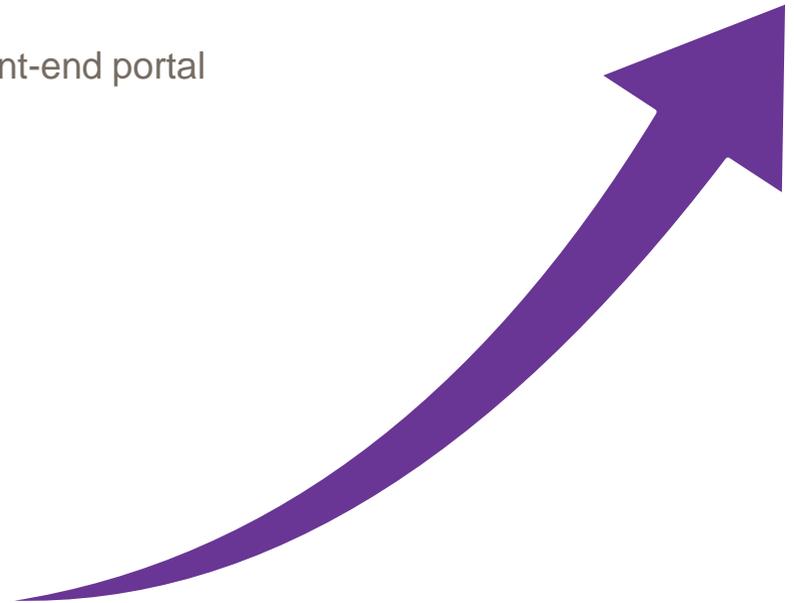
The TSU-Interface - To support your initial BPO transactions

Start Small

- Define project team (*product, legal, accounting, IT, B/O, sales*)
- Register to TSU (*3 weeks*)
- Follow BPO training (*2 days*)
- Get used to TSU-Interface (*2 days*)
- Perform initial tests (*2-3 days*)
- Identify BPO prospects (*O/A or LC*)
- Develop BPO-based offering (*paid on time, financing...*)
- Adapt C2B contracts (*15 days*)
- Operate initial transactions with client(s) and correspondent bank(s) (*POC*)
- Go live using the TSU-Interface

Scale Later

- Approach additional customers
- Forecast volumes
- Contact your trade vendor
- Plan back-office integration based on volume forecasts
- Upgrade front-end portal



Readiness dashboard for banks adopting the BPO

Commercial readiness

- Business case
- Market research
- Data mining
- New product definition
- Legal
- Accounting
- Collateral
- Sales training
- Promote

Business

Operational readiness

- “Proof of concept”
- Training
- Test plan
- Operational procedures
- Automation

Operations

Technical readiness

- Register to TSU
- Set up test environment incl. TSU Interface
- Define impact on front / middle / back office
- Develop integration project

Infrastructure





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