

Supply Chain Process Outsourcing – Enabling Efficient Trade Finance

Trade Finance New Challenges

Banks are being squeezed out from the Trade Finance market due to an increased use of open accounts. Corporations are demanding better choices in international trade finance and the need for flexible and speedy financial settlement in supply chains is critical. Traditional settlement options like Letter of Credits and Documentary Collections are declining in usage and being substituted by the use of open accounts that are faster, simpler and less costly. Companies use open accounts for 47% of their trade activity¹.

Moreover, as most trade occurs with developing economies, traditional trade finance methods are less enticing for sellers. These economies lack the needed infrastructure and expertise to deal with such complex traditional financing processes. For example, 57% of the transactions performed by companies that conduct business in China do so via open account, compared to only 29% via letter of credit. The gap between the two will continue to grow as more vendors in China expect to make greater use of open accounts compared to letters of credit and guarantees².

A better Trade Finance Program

In order to move up the value chain, banks must design and deliver a range of financial supply chain solutions that will help corporate customers manage their receivables and payables better. The market for Supply Chain Finance is at a critical stage of development. In a survey conducted by Aberdeen Group in 2006, more than two-thirds of companies report that they are “investigating or putting in place SCF programs to lower end-to-end costs.”³ Trade banks are in a unique position to turn that demand into a profitable business. The same forces that have driven bank customers to transform their operations from local to global are giving banks the opportunity to apply their Trade

¹ Survey by the Association for Financial Professionals (AFP)

² Survey by the Association for Financial Professionals (AFP)

³ Aberdeen Group, "Supply Chain Finance Benchmark Report", September 2006.

Financing expertise in creative new ways. Innovative banks already have begun the process, and others will be quick to follow.

The financial and physical supply chains run in parallel with the common denominator being information. Along the way there are points at which the supply chains intersect. These are the trigger points that allow banks to extend value added transaction services related to cash flow. With the timely and accurate exchange of information banks can deliver competitive services that will help corporate customers reduce costs and optimize liquidity. In order to offer these services, banks need a global reach that will allow them to support all parties in the supply chain. A successful platform must be built around the following aspects:

- The core of any trade finance program must have a strong Supply Chain Visibility solution.
- The platform must be open and multi-bank so corporations can utilize the same platform independent of the financing entity.
- One platform that integrates physical and financial supply chain.
- A Collaborative platform between banks and logistics companies where banks can play an “orchestrating” role in bringing all these entities together for the corporate client.
- Banks should rely on Business Process Outsourcing (PBO) partners for their supply chain technology needs. What will cement the relationship with the corporation for the bank is its expertise and knowledge in developing innovative financing programs that improves the finance side of the supply chain.

TradeMerit - Supply Chain Process Outsourcing

TradeMerit offers an alternative approach to handling the flow of information within a global supply chain. The service makes it feasible for banks to leverage TradeMerit’s expertise in the areas of compliance, supply chain design, and technology to create a unique service that can help client corporations in:

- Reducing the cost of capital for sellers through improved Days Sales outstanding and lower financing rates,
- Creating Better liquidity for suppliers,
- Lowering cost of goods sold due to better financing of suppliers,
- Improving Days Payables Outstanding for buyers

TradeMerit is a Global Trade Management Business Process Outsourcing provider with a solution that is non-invasive and requires no investment beyond the Bank's current IT systems and processes. Banks can evolve their Trade finance groups in order to realize the following benefits:

- Enhance customer relationships and provide multiple revenue streams by extending the Bank's reach to cover customers' end-to-end supply chain financing needs.
- Enhance customer retention having customers move to a non0bank platforms to obtain financing.
- With TradeMerit taking care of complex IT systems, Banks can better focus on perfecting and marketing their specialty, regardless of whether it is industry, region or country specific.

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