THE ICC BANK PAYMENT OBLIGATION
A Digital Instrument for a Digital Age
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- What is a Bank Payment Obligation?
- How does a Bank Payment Obligation work?
- Bank Payment Obligation use cases
- Future direction and developments
- Discussion
What is a Bank Payment Obligation?

The ICC Bank Payment Obligation (BPO)

A BPO is an irrevocable undertaking given by a bank to another bank that payment will be made on a specified date after successful electronic matching of data according to an industry-wide set of rules.

Therefore, a BPO offers:

• An assurance of payment
• Scope for risk mitigation
• Possible use as collateral for finance

The BPO is an alternative instrument for trade settlement. It is designed to complement and not to replace existing solutions.
What is a Bank Payment Obligation?

The BPO combines the security of L/Cs with the simplicity of Open Account

Bank services based on paper document processing

Bank services based on electronic trade data exchange

Array of risk, financing and processing services to address both cash management and trade finance needs
What is a Bank Payment Obligation?

The Bank Payment Obligation comprises a complete set of standards, processes and rules.
What is a Bank Payment Obligation?

**ICC BANK PAYMENT OBLIGATION**

- A BPO is an irrevocable pledge made by a bank that payment will be made to the seller on a specified date after electronic matching of data on an open account transaction.
- A BPO provides similar security to a L/C but relies on electronic presentation of compliant data rather than physical presentation of compliant documents.
- A BPO may be used to complement a variety of value propositions in bank-assisted open account.

What is a Bank Payment Obligation?

Growth in Global Trade: The Rise and Rise of Open Account

<table>
<thead>
<tr>
<th>Year</th>
<th>World Trade (WTO data)</th>
<th>Total Volume of LCs on SWIFT</th>
<th>Estimated Value of LCs on SWIFT</th>
<th>% world trade on LC (by value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>USD 6 trillion</td>
<td>4.5 million</td>
<td>USD 1.5 trillion</td>
<td>25.0</td>
</tr>
<tr>
<td>2010</td>
<td>USD 15 trillion</td>
<td>4.6 million</td>
<td>USD 2.5 trillion</td>
<td>17.0</td>
</tr>
<tr>
<td>2020 (est)</td>
<td>USD 25 trillion</td>
<td>4.7 million</td>
<td>USD 3.5 trillion</td>
<td>14.0</td>
</tr>
</tbody>
</table>

Conclusions

- In the face of these changing market dynamics the effective management of credit and working capital is of growing importance.

- Banks need to respond to these changes by putting in place a supply chain strategy to support delivery of “supply chain finance” and other “bank-assisted” open account services e.g. trade facilitation designed to speed up the release of goods and speed up the release of payment.

- The Bank Payment Obligation provides a framework for these services.
How does a Bank Payment Obligation work?

Addressing corporate needs; enabling product innovation

TSU is a SWIFT service using SWIFTNet messaging and XML standards to access a central data matching and workflow engine to support banks’ supply chain services and is governed by a rulebook.

TSU membership is open to BOTH supervised financial institutions AND non-supervised financial institutions, subject to standard due diligence process for SWIFT membership.
After the Buyer and Seller have contracted to use BPO as the method of payment, the relevant purchase/sales order data is passed to each bank.

There are no mandatory channels or standards for this.
Interactions between Buyer’s Bank, Seller’s Bank and the SWIFT TSU: Establishing a BPO where the Buyer’s Bank is the only Obligor Bank

The Buyers Bank uses the purchase order data to submit a Baseline

The Buyers Bank receives a Baseline Match Report to confirm that the two Baselines match

The Sellers Bank uses the purchase order data to re-submit the Baseline

The Sellers Bank receives a Baseline Match Report to confirm that the two Baselines match

This is already a basis for the bank to offer pre-shipment finance based upon a confirmed purchase order

Buyer’s Bank = Obligor Bank

Seller’s Bank = Recipient Bank
Interactions between a Buyer, a Seller and their respective banks

After shipment, the Seller will provide commercial and transport data to the Sellers Bank.
Interactions between Buyer’s Bank, Seller’s Bank and the TSU: Establishing a BPO where the Buyer’s Bank is the only Obligor Bank

The Data Set Match Report confirms that the invoice & transport data match the Baseline and the BPO is due

The Sellers Bank submits the invoice & transport data to the TSU
The Data Set Match Report confirms that the invoice & transport data match the Baseline and the BPO is due

The bank is now in a position to offer post-shipment finance based upon the approved invoice. In some cases, the buyer’s bank may also offer extended payment terms to the buyer

Buyer’s Bank = Obligor Bank

Seller’s Bank = Recipient Bank
Interactions between a Buyer, a Seller and their respective banks

When the commercial and transport data has been matched to the purchase order data, the BPO is due and payment will follow either at sight or on deferred payment terms.
BPO enhances L/C processes

Processing and payment efficiencies

BPO benefits

- Electronic presentation of data instead of physical presentation of paper documents
- Improves quality and objectivity of compliance processes
- Provides automated environment for standardised presentation of purchase order and invoice data
- Streamlined processing focuses only on data relevant to financial decision making
- Exporters gain certainty of the timing of cash flow and can improve liquidity forecasting and management
- Exporters may use BPO to get pre-/post-shipment finance through their own bank
- Can be added at any time, for any amount
- Buyers and sellers can negotiate commercial incentives
- Importers are able to reduce supplier default risk
- Ability to syndicate risk for more effective management of credit lines and exposures

BPO helps to reduce processing time and costs by minimising the risk of disputes & delays arising out of discrepant documents
BPO addresses Open Account challenges

Processing and payment efficiencies

- Mitigates delivery risk for the buyer and payment risk for the seller
- Exporters can access pre-/post-shipment financing services to support working capital needs – alternative to bank loans or revolving credit lines
- Exporters can negotiate improved payment terms – alternative to factoring, forfaiting, reverse factoring
- Reduces on-boarding and associated operational costs
- Importers can extend payment terms from their own bank
- Provides automated environment for standardised presentation of purchase order and invoice data
- Improves transaction tracking and simplifies payment reconciliation processes
- Establishes and maintains successful win-win trading relationships

BPO helps to secure the transaction while maintaining competitive positioning
Summary of financing opportunities

Basic Financing options using BPO

1. The Recipient Bank may offer pre-shipment finance to the Seller based on a PO commitment to pay.
2. The Recipient Bank may offer post-shipment finance to the Seller based on approved payables.
3. The Obligor Bank may offer extended payment terms to the Buyer.

Adapting the payment due date for interbank financing

1. The Recipient Bank may agree with the Obligor Bank to get early bank-to-bank payment at a discount, by amending the payment due date. The Recipient Bank may then use the funds it has received to pre-pay a Seller who needs financing.
2. Alternatively, the Obligor Bank may require to delay the bank-to-bank payment to the Recipient Bank to later date, by extending the payment due date. The Obligor Bank can use this option to offer extended payment terms to the Buyer.

BPO terms can be dynamically amended to respond to the liquidity needs of the seller and/or the buyer.
By delaying the establishment of the BPO, the Recipient Bank may offer post-shipment or approved payables finance to the Seller only when the Seller needs it. This also provides a benefit to the Buyer in that it reduces demand on credit lines and therefore reduces overall cost.

The Recipient Bank may pre-match the commercial data against the established baseline in order to keep open the possibility of adding a BPO later to support approved payables finance. When the BPO is added by way on an Amendment the Recipient Bank can immediately submit the commercial data for a full match knowing that it will match and the BPO will be due.

BPO terms can be dynamically amended to respond to the liquidity needs of the seller and/or the buyer.
Adoption of ISO 20022 for BPO in Trade Finance

85+
Corporate relationships live on BPO

27
Banking groups live on BPO / TSU

22
Banking groups testing BPO on TSU

68%
68% of the top50 trade banks (*) are reachable on TSU to process BPOs

80
Banking groups reachable on TSU

18 / 20
18 of the top20 trade banks (*) are reachable on TSU to process BPOs

51
Countries reachable on TSU

194
Banks (BIC8) reachable on TSU

(*) ranking based on Cat 7 traffic

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ISO 20022 for BPO brings value in various industries

- Chemicals
- General Retailers
  - Personal Goods
- Mining
- Technology Hardware & Equipment
- Automobiles & Parts
- Food Producers

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27 banking groups live on ISO 20022 for the BPO
*Including 7 of the top 15 trade banks (*)*

* (*) ranking based on Cat 7 traffic
Case study: “The first open account BPO”

Japanese importer

- Energy infrastructure industry
- Mitsui & Co. Plant Systems, Ltd.

German exporter

- Machine building industry
- RVT Systeme

Delivery contract (Gearbox and Coupling) and agreement on “BPO at 7 days after TSU data match”

New importer – exporter relationship
Implmented BPO instead of Advance Payment

Obligor bank

- Bank of Tokyo-Mitsubishi UFJ

Recipient bank

- UniCredit

Processing the first open account BPO
- World-wide
- Between Europe and Japan
- Between a German company and a bank
Case study: “Coming from open account”

Turkish importer

Delivery contract (spare parts) and agreement on BPO (sight for exporter; Deferred-Payment for importer)

Before they used open account

German exporter

Obligor bank

Processing BPO and financing Deferred-Payment for importer
due master loan agreement between the banks; TEB charged importer financing costs

Recipient bank

automotive industry

technology industry

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Case Study - “Optimisation of internal payment handling processes”

**Importer in Frankfurt**
- German SME
- Global merchant, specialising in polymers, additives
- Data for baseline

**Exporter in Bangkok**
- PTT Polymer Marketing Company Ltd.
- Shipping data sets

**Commerzbank**
- Frankfurt
- Obligor Bank

**Matching of trade data**
- Import BPO

**Trade contract and shipping documents**
- Supply chain@swift.com
April 2015 – First ever BPO with eB/L

Delivery contract (Iron Ore) and agreement on BPO as payment method
Previously through documentary credit

1

Commodity / Agriculture industry

Mining industry

2

Data for baseline

Shipping data sets

3

4

Exchanging and matching trade data to create payment obligation

eB/L held in escrow

5

Release of eB/L

TSU

Obligor Bank

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

Al-Sayer had previously relied on traditional Letters of Credit for trade settlement and was seeking more efficient methods to reduce the reliance on paper documentation as well as optimise their transaction processing.

With automated data matching, BPO removes the risk of subjectivity in the physical examination of documents, thus significantly reducing discrepancy disputes and delays.

Al-Sayer will benefit from increased efficiency in trade processing and the assurance of payment to trading partners.
The market needs new solutions in support of the efficient conduct of international trade: the BPO is a perfect instrument, as it allows the financial processes to ‘catch up’ in terms of processing time, to the physical movement of goods and to the ERP-enabled, 24/7 and near-real time communications now possible even across complex international supply chains. Digitisation and solutions like the BPO effectively speed up commercial response, eliminates delays and removes time zone issues when dealing across markets, and needing to quickly line up suppliers in response to a new order from a client. Banks will need to broaden and further develop their digitised offerings in support of trade to remain relevant; while corporate clients and SWIFT are working today to advance market adoption, the expectation in future is that banks should lead and facilitate this process.

Ural Inal, Chief Financial Officer, TEMSA GLOBAL (Turkey)

We are pleased to pioneer this trade innovation in our industry and markets. Delays in receiving title documents, which affect the timely receipt of goods, have always been a significant challenge for us. With the help of Standard Chartered, we can now enjoy much faster turnaround times by utilising the BPO for trade settlement, and in the process, avoid additional costs such as commission and demurrage charges.

Mubarak Naser Al Sayer, CEO, Al Sayer Group (Kuwait)

In the context of digitisation, our focus currently is on the Bank Payment Obligation, where we see potential and the opportunity for creative solutions. We have been doing several BPO’s so far, in some instances replacing other trade finance products, in other instances allowing our buyer to benefit from working capital optimisation. We complement the BPO with our own SWIFT address and an additional platform we use for our trade transactions, which is partially digitised and partially requires data entry. We may be ‘kicking in an open door’ by stating this, but transaction lead times in trade are compressing, and traditional L/Cs are often no longer fit for purpose: digitisation is here, and the BPO is a natural channel for digitisation into the world of trade.

Michael van Steenwinkel, Global Credit Manager Chemicals, BP (Belgium)
At CIMB, we view the BPO as a key differentiator in trade financing, in the context of increasing and irreversible shift towards digitisation. Market adoption of BPO will accelerate over time, and the speed depends on the efforts from both banks and corporates. More banks need to switch on to BPO and focus on educating their clients. SWIFT also has an important role to play in educating banks and corporates, and encouraging adoption. Corporates have an even more pivotal role in motivating adoption by their counterparties. This approach requires at least one trading partner to be convinced of the value proposition of BPO, and further requires them to have figured out the economics of such a solution. Perhaps more critically given the nature of these transactions, business partners must be willing to share the benefits of conducting trade on a platform such as the BPO, which is particularly well suited to high-growth open account trade flows across ASEAN.

Thomas Tan, Group Head, Transaction Banking, CIMB Group, Malaysia

UniCredit worked on BPO right from the beginning and was active in drafting the uniform rules for the BPO. When we completed the first BPO in Germany and in Italy we established our leading position in managing BPO transactions in Europe. Since then we have received many client requests from both mid-caps and multinationals. UniCredit is the European banking gateway to the world, and can leverage its broad correspondent banking network and presence in more than 50 markets. As a consequence, we are able to offer services that enhance operational efficiency and mitigate payment risk for the ever growing volume of trade transactions that are managed on an open account basis.

Claudio Camozzo, Global Transaction Banking Co-Head at UniCredit and SWIFT Board Member

After going live with the BPO in October 2014, we are pleased that our customers responded positively to the BPO and processed other BPO transactions with us. Being the leading Mittelstandsbank in Germany, we are ambitious to expand our BPO business in Germany and abroad, we see opportunities in the context of supply chain finance and the market trend for digitisation of trade flows, benefiting from our relationships with about 5,000 credit institutions worldwide.

Frank-Oliver Wolf, Head of Sales Commerzbank Transaction Services Germany at Commerzbank AG

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Future reading

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(Also available on Amazon)

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Chamber of Commerce
http://store.iccwbo.org/
Future Direction & Developments

ICC Banking Commission Digitalisation of Trade Finance Working Group: Approved EXCO mandate for revision of URBPO

Under the auspices of the ICC Working Group on Digitalisation in Trade Finance, the ICC Banking Commission has created a sub-stream for BPO that includes three objectives:

1. Marketing and Awareness of BPO in its current state.

2. Revision of the URBPO to include the roles and responsibilities of buyers and sellers and modify it to address conditions within distributed ledger technologies (DLT) that create obligations.

3. Address in conjunction with the “standards” stream of the digitalisation working group data standards which improve the Trade Services Utility (TSU) and/or lay the framework for smart contracts and other data enablers to support DLT.
Thank you