



"Reliable payment is the first fundamental of free trade."

*John W. Dunlop, is President of AVG Trade Group, providing Letter of Credit management, documents and payment via the Internet to clients worldwide.*

### **Traditional Bank Trade Finance Support.**

Traditional support begins when a Credit is received by the bank from another bank, usually via SWIFT message. The support begins again when the negotiable documents are prepared and presented for examination and/or payment by the beneficiary.

The ground between advise and presentation is "no banks land". The banks must remain impartial when examining documents and objectively examine their compliance with the Letter of Credit for payment. For this reason banks historically do not offer Credit management and document preparation services.

However, this ground between advise and presentation is where the real action is. The following are services that are needed by the export community, and an opportunity for the banks to find new clients.

### **Letter of Credit Review and Amendment Support.**

There is no greater mystery to the beneficiary than how to interpret the Letter of Credit words into meaning, and then how to amend it to conform to what he and the buyer agreed to during the sale process.

## **Trade Finance Support International Banks Need to Provide**

*International banks are scrambling to define their trade finance support services in the age of the Internet.*

Understanding the Credit language is tough enough, but the issuing banks add additional requirements that are not understood. Adding to complexity are country specific requirements that were not requested by the applicant. Trade finance manuals, seminars, and college courses are excellent for general understanding, but do not fill the void for understanding how to fix the Credit in hand.

The banks need to find a way to provide review and amendment services for the Credits they advise to their customers.

### **Negotiable Document Preparation.**

Preparing the negotiable document set for presentation is the responsibility of the beneficiary. This function is often provided as a service by the shipment's freight forwarder. Freight forwarder document services are at a disadvantage because they must work and try and comply with whatever terms and conditions the exporter agreed to. The plan for preparing the documents needs to take place during the Credit review process. If a document cannot be produced, the Credit needs to be amended before the shipment takes place.

The banks need to offer document services that is associated with the Credit review process, and not as a separate standalone service.

### **Payment Tracking & Status.**

The present way to determine that status of a negotiated transaction is to call the bank examiner and ask him the status. In the age of the Internet this is stone age stuff.

The banks need to provide Internet status of ongoing Credit negotiations.

### **Negotiable Document Imaging.**

Banks do not provide scanned images of the negotiable documents to their customers. Once it is submitted to the negotiating bank, it goes into the black hole pipeline and eventually emerges at the other end at the issuing bank. If the cargo arrives in the meantime, it sits and waits for the original documents to arrive so that the applicant can clear customs. However, the applicant can get the cargo released if he secures a Letter of Indemnification from the issuing bank. This is much easier if he has an exact copy of the original submitted documents. Scanned documents can be password protected and Emailed anywhere in the world.

The banks need to provide document imaging services to the beneficiary for him to use for distribution while waiting for negotiation and payment.

### **Interactive Management Bank Forms.**

Managing Letters of Credit is a form intensive function. Knowing which form to use for which action is confusing at best. Requesting the form usually results in "go to the branch and get xyz", or I'll we mail it to you.

The banks need to provide Internet online Credit management forms to include:

1. Export Letter of Credit Instructions. Used by the beneficiary to instruct the applicant how to issue the Letter of Credit.
2. Instruction to Pay Proceeds Form. Used by the beneficiary to assign a portion of the Credit proceeds to a second party.
3. Request for Partial Transfer of Credit.

Used by the beneficiary to transfer the Credit to a 2nd beneficiary.

#### 4. Drafts/Documents Purchase Agreement.

Used by the beneficiary to request his draft be purchased ("discounted").

#### 5. Letter of Credit Management & Processing Form.

Used by the beneficiary to request Credit management, documents, and payment from AVG.

#### 6. Application for Commercial Letter of Credit.

Used by the applicant (buyer) to request a commercial Letter of Credit.

#### 7. Application for Standby Letter of Credit.

Used by the applicant to request a Standby Letter of Credit.

#### 8. Credit Security Agreement.

Used by the applicant for collateral for a commercial or Standby Credit.

#### 9. International Direct Collection.

Used for Direct Collections against documents by a corresponding bank.

### **Trade Finance Training for Customers.**

Traditional trade finance training provides a text book approach of how to do Letters of Credit and other trade finance functions. The text book is fine for a primer, but it does not address the real problems faced by exporting companies. Historically, eight out of ten document presentations are discrepant, this has not changed in the last decade with all the training that is and has been available.

The banks need to provide training combined with their experience in dealing with the kaleidoscope of everyday problems of discrepant documents and country specific requirements.

### **Internet Based Standard Business System.**

There is no global business transaction system or standard such as the Uniform Customs and Practices for Documentary Credits, ICC Publication 500. However,

there are many accepted concepts and semantics used worldwide.

A global business system includes common definitions and forms to include; request for quotation, quotation, purchase order, proform invoice, Letter of Credit management forms, shipping order, packing list, invoice and the like. These systems should be Internet based for wide access ability.

The banks need to provide a common business system for their applicants and beneficiary's to use between them on the Internet, that integrates into the banks trade finance system.

### **Internet E-commerce Trade Transaction Capability.**

Global E-commerce begins and ends with credit card purchases. These are fine for buying candy over the Internet, but are limited for trade purchase of larger dollar amounts and long lead times to shipment. A Letter of Credit based system is needed to bring Internet E-commerce to trade finance.

The banks need to provide Internet Letter of Credit trade finance systems to international business.

### **Conclusion.**

The banks that provide these services are going to begin taping into the 45% of the potential market base called "small business".

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