



# IFSA EDUCATIONAL SERIES TODAY'S TOPIC

## *Open Account Challenges*

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# Open Account – The Challenges

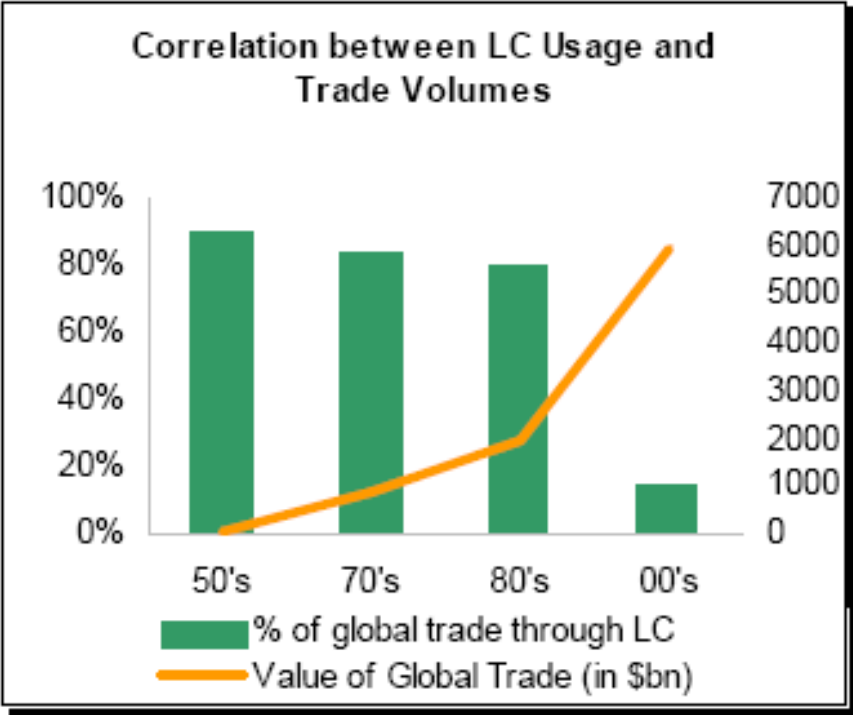
## ➤ Bank Internal Challenges

- New View of Trade
- Changing Infrastructure
- Is Credit on Board

## ➤ Bank External Challenges

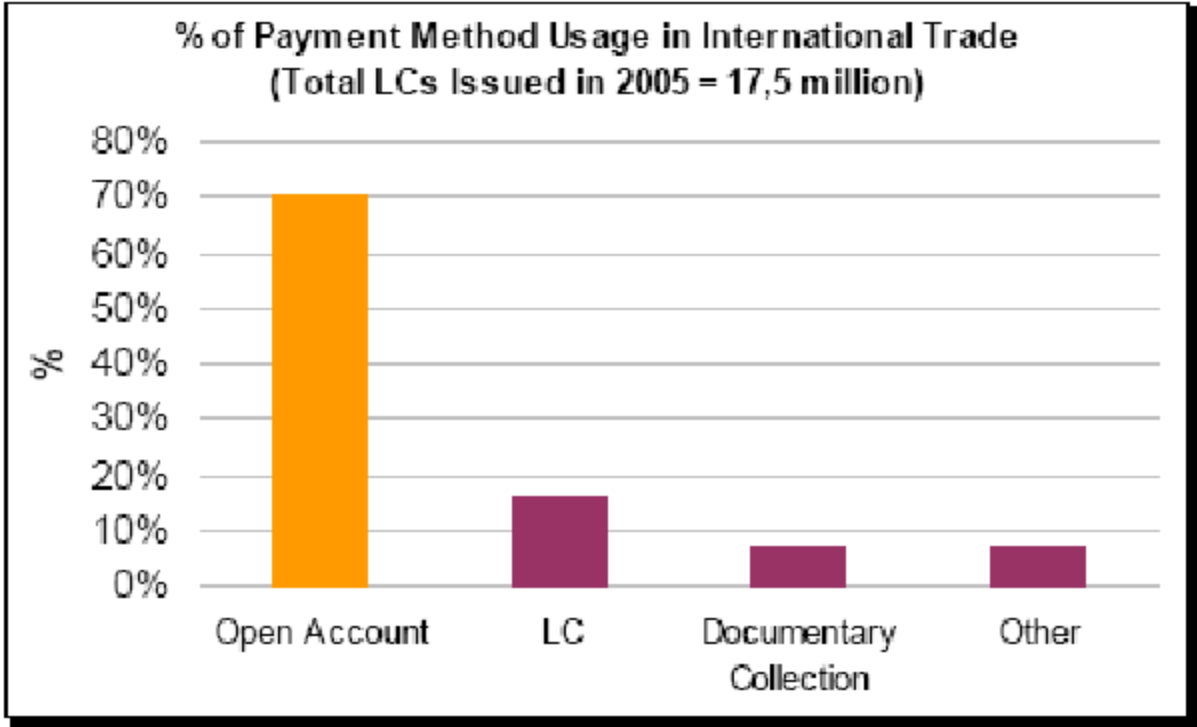
- How can the Banks play
- Buyers wants
- Sellers needs

**Correlation Between LC Usage and Trade Volumes**



Source: WTO, ICC, Celent

**Payment Method Usage in International Trade**



*Source: Industry sources, Celent*



## **New View of Trade**

- Instead of Importers/Exporters to Buyers/Sellers
- The full range of Corporate Transactions > LC through Open Account
- Both Domestic and International business, no Geographic Limitations

## **New Revenue Streams from Non-Traditional Sources**

- Traditional Trade Volume Remains Steady, It Is Not Growing in Proportion to the overall Growth of Global Trade

## **The Emergence of Financial Supply Chain Management**

- Purchase Order and Invoice Processing
- Financing of Trade Related Accounts Receivable and Payable

## **Convergence of Trade and Cash Management**

- Applicable to both Domestic and Cross border Transactions
- New Thinking > Transactional based with a Cash Management View



# Changing Infrastructure

- **Shift in Criteria to Determine Geographic Coverage**
  - No Longer a Decision Based on the Geographic Footprint of the Institution, Rather Are We in Trade Globally
  - Banks with Local or Regional Footprints need to partner with other Institutions to Leverage each other's Franchises



# Changing Infrastructure

- **Dynamic Solutions will Lead the Way**
  - New products and services means enhanced Systems that better integrate Bank wide
  - SWIFTNet Trade Services Utility (TSU) is a Driver (TSU R2 available Q2/09)
  - Latest Technology benefits the Business this time (J2EE, SOA, ESB, BPEL)



# Changing Infrastructure

- **Strategic Alignment with 3rd Party Providers**
  - **Banks are Seeking Partnerships with other Supply Chain participants**
    - **3PL's** - Shippers (Sea, Air, Land), Forwarders, Document Houses, Consolidators, Inspections, Insurance, Customs
    - **Corp. Networks** - B2B Sites, Industry Groups, Financing Platforms
    - **Information Providers** - EDI Exchanges, SWIFT (TSU, SCORE, for Corporates, MA-CUGs), Multi-Bank Initiatives



# Is Credit on Board?

- **The Emergence of Financial Supply Chain Financing**
  - Multiple Potential Opportunities, the Banks are Pioneering with PO Financing & Invoice Discounting, AP and AR Management
  - Worldwide Perception of Less Risk > Trade Deals less Risk



# Is Credit on Board?

- **Challenges for Credit People**
  - Financing Sellers based on the Buyers Credit
  - Approving Cross Border Transactional Lending
  - Understanding the value of the New Visibility
  - Taking Small Steps with Credit > Start with low hanging Fruit



# Is Credit on Board?

- **Comfort with the Risk**
  - Risk Weighting > is RAROC (Risk Adjusted Return on Capital) to be the de-facto standard?
  - Use of FX hedging and futures contracts
  - Wrapping Transactions in Insurance
  - Packaging for the Secondary Market



# How Can the Banks Play?

- **Document Management**
  - Collaborative Platform for Buyer/Seller/3PLs
  - Single entry for Data > PO to Invoice with Shipment Details
  - PO-Invoice Reconciliation, and Transaction History Repository
- **Account Receivable and Payable Financing**
  - Use Trade Transactions to Offer Lower Cost Financing
  - Capital Reservation Requirements Are Lower for Trade Related Financing Compared to General / Working Capital Credit Lines
  - Aside from Lower Cost of Financing, Potentially Increases the Capital Availability for the Corporate
  - Financing in many Flavors with Flexibility



# What the Buyers Want

- Collaborative platform for their Trade Business, Trading Partners and Shipping Network
- Better usage of their Capital, additional turns and shorter DSO
- Access to additional Cash outside of their Working Capital Line
- No Interruption to their Physical Supply Chain



# What the Bank Can Provide

- Document Management services; Reconciliation, Security & Validation
- Compliance checking of OFAC, AML, KYC, SDN, etc.
- Central repository of all transaction data including Images
- Dynamic Reports and Inquiries with full Audit Trail
- Financing and Risk Mitigation



# What the Sellers Needs

- Meet Buyers demands with the right product, at the right price, shipped in a timely manner to fulfill Supply Chain requirements
- Capital to fund materials and production for Buyers POs
- Ability to invest in new Products & efficient Production methods



# What the Bank Can Provide

- Capital for the Seller based on the Buyers credit profile
- Pre-export Financing and Cash Flow projection accuracies
- Electronic access for the Seller to the Buyer
- Automated Accounts Receivable management services

**Create an end-to-end corporate solution**

- Provide traditional trade
- Provide open account trade
- New services and financing

**Create an open platform to service all the participants in the financial supply chain**

- Service beyond your customer to their suppliers and trading partners

**Expand**  
your offering

**Extend**  
your reach

**Optimize**  
your enterprise  
infrastructure

**Drive business agility with Service Oriented Architecture**

- Lower integration cost
- Reduce time to market
- Facilitate e-business



INTERNATIONAL FINANCIAL SERVICES ASSOCIATION



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## About Chris Principe...

Chris Principe has worked in International Trade as an exporter, importer and solutions provider for over 25 years. In his current position he is responsible for the Global Trade business at ACI including the development and delivery of new products focused on Financial Supply Chain Management and Open Account Processing as well as traditional Trade Finance. In 1986, he founded and was CEO of Medi-Globe, an Export Management Company, until 1998. Since 1999, he has been dedicated to the Trade Finance software industry. Mr. Principe brings a wealth of international business and trade finance experience from the corporate perspective, as a customer of the banks and that of a trade finance software vendor. Mr. Principe holds a degree in business administration from Hawthorne College. Additionally, Mr. Principe is a member of the IFSA Supplier Committee and the incoming Vice-Chair for the IFSA Trade Product Management Committee.

## About ACI Worldwide...

ACI Worldwide is a leading provider of electronic payments software and services to major banks, retailers and processors around the world. The company's solutions enable online payment processing, online banking, fraud prevention and detection, trade finance and open account processing, and back office services such as settlement, account management, card management and dispute processing. ACI solutions provide market-leading levels of reliability, manageability and scale to over 800 customers in 88 countries. Visit ACI Worldwide at [www.aciworldwide.com](http://www.aciworldwide.com)



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## IFSA Service Partners Committee

The goal of the Service Partners Committee is to broaden the industry point of view regarding issues confronting the financial community. The Services Partners Committee will add its knowledge and expertise to offer solutions in partnership with the financial community





## About the IFSA

The International Financial Services Association (IFSA) is a not-for-profit trade association whose members are the world's largest international financial services organizations. At the current time the IFSA has over 165 Members and over 600 participating organizations headquartered around the world. The IFSA's focus is on international financial services, which includes trade services products such as documentary credits, funds transfer, treasury operations, compliance, regulatory reporting, etc. The IFSA membership represents over 98 percent of the letters of credit issued in the US as well as over 98 percent of the US funds transfer volume. In the 1920's, the IFSA created the first rules for the processing of letters of credit between banks. These rules were the model for the International Chamber of Commerce Uniform Customs and Practice for Documentary Credits.

The organization was founded in 1924 and has been in continuous existence since that time. The IFSA provides a forum for members to meet and discuss the various issues related to the financial services industry. The IFSA's primary functions are education, representing the membership to international bodies such as SWIFT and the ICC as well as the US regulatory bodies, and provide a community through which members can network. Much of the work of the organization is carried out by volunteers who participate on the organization's thirteen (13) technical committees. These committees represent the major disciplines of international financial services operations. Through these committees the organization establishes operating rules and procedures for financial services institutions and work with the global regulating bodies to provide input on laws and regulatory procedures/practices. For additional information log on to our website [www.IFSAonline.org](http://www.IFSAonline.org) or contact the IFSA at [Support@Intlbanking.org](mailto:Support@Intlbanking.org).



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## Payments Maturity Model

*A model that will help you benchmark your organisation's performance, assessing whether your systems and processes are up to the challenges ahead.*

IFSA Presentation Series  
Thursday January 8, 2009

*Martin Coen*  
*Group CEO*

