

# Open Account Trade: How Financial Institutions Can Benefit



The numbers are remarkable: global trade volume has doubled in the last decade, and quadrupled in the last two. Today more than 40% of companies worldwide trade with eight or more geographies, many with hundreds of individual suppliers. This growth in trade offers new opportunities for financial institutions to play a role in financing cross-border transactions.



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One result of the explosive growth in global trade is a dramatic shift in transaction formats in the international trade marketplace — a shift that is affecting importers and suppliers alike on both ends of the supply chain. Specifically, there's been a noticeable and ongoing transition from traditional letters of credit to open account trade. Open account trade has been proven to offer savings and enhanced efficiency throughout the purchasing cycle, particularly for companies with a one-to-many relationship between themselves and their overseas suppliers. It's easy to see why open account is regarded as a win-win for buyers and sellers. As buyers move their overseas suppliers from LCs to open account (or lengthen their existing open account terms), electronic disbursement services are reducing buy-side transaction processing and vendor management expenses. The longer payment terms of open account can be detrimental to a supplier's working capital needs. However, emerging financing programs are giving suppliers a liquidity management tool that frees up

borrowing capacity while increasing their cash flow, reducing accounts receivable and reducing days sales outstanding.

## Clearing traditional hurdles

Until recently, international open account trade had been limited by some rather daunting hurdles, including a lack of transparency and apprehension about cross-border exposure. However, a significant improvement in technology — and with it, increased visibility into the financial supply chain — have minimised these concerns, making global business not only manageable but profitable. Today's buyers and sellers fully recognise the efficiency benefits of open account trade. And they are moving quickly to make open account the dominant payment method in their cross-border supply chain management. Open account is only expected to become even more prevalent, thanks to its ability to streamline processes by eliminating the multiple parties involved in the flows, while reducing the amount of documentation required in global trade transactions.

## FIs enter the picture

With the dramatic increase in buyers and suppliers participating in international trade, there is a corresponding need for risk mitigation on a global scale. While open account trading is less complex than traditional letters of credit, this simplicity brings with it increased operational and credit risk, since there is less protection built into the process than traditional LCs offer. The greater technical capability, deeper market knowledge and stronger client relationships required by global open

account trading can be intimidating for buy-side companies.

As a result, they are asking their financial partners to help protect the viability of their supply chain. This has been especially noteworthy in light of recent credit uncertainties worldwide — and the potential supply chain interruptions that could result. In turn, financial institutions are searching for ways to accommodate their buy-side clients. To do so, they're looking to create an end-to-end link between corporate buyers in, say, the UK or US, and suppliers in Asia and other parts of the world. Global banks are developing new open account platforms to facilitate straight-through processing and reduce operational costs for their multinational clients. They're automating procure-to-pay workflow. They're extending payment terms and helping clients reduce the cost of goods sold. And they're focusing on revenue growth in extended markets via outsourced credit/risk management.

## The need to partner

Larger banks have the breadth to do all this themselves. But other institutions, such as regional banks, lack on-the-ground presence in the suppliers' countries, and thus find it difficult to finance their corporate customers. They need to ally with a global partner to bridge the geographical trade gap. Many are turning to Citi, which has a reputation for regarding financial institutions as strong partners in the supply chain finance arena. It isn't difficult to see why Citi has earned such a sterling industry reputation. As one of the world's largest financial

institutions, the company is a leader in helping financial institutions take advantage of open account opportunities in the global financial supply chain. Its comprehensive portfolio of innovative trade services and financial products help financial institutions and their clients effectively manage risks and optimise cash flows across the global supply chain.

Citi streamlines and enhances cross-border transactions between trading partners virtually anywhere. Its open account trade process engages both ends of the supply chain by deploying unique, renowned advantages: a market-leading branch network spanning 104 trade-capable branches in 72 countries; the largest footprint in global trade; end-to-end operational expertise; and robust technology infrastructure.

### **An open account web portal**

The open account space requires buyers and suppliers to interact efficiently, even instantaneously, across thousands of miles. That requirement lends itself to an electronic 'portal' for efficient flows.

Some companies have developed and/or participate in closed online trading exchanges. Most, however, lack the ability to access these exchanges, and are instead calling upon their financial partners to provide one.

One way for institutions to offer this portal into the open account arena is via a transaction-based platform such as CitiDirect.<sup>®</sup> This award-winning, web-based module enables buyers and sellers to streamline the process of cross-border purchase order and invoice management. Financial institutions can offer the portal directly to their clients — and even "white-label" the platform, branding it with their own logo and other proprietary graphical elements.

### **A SWIFT solution called TSU**

Another method for financial institutions to facilitate and provide open account trading support to its clients and their trading partners is via a ground-breaking



SWIFT solution called the Trade Service Utility. Launched in April, SWIFT TSU is a bank-to-bank utility to facilitate the secure transfer and movement of purchase order and invoice information from buyers and suppliers through their financial institutions.

In the transfer of data between banks, TSU helps automate the payment approval process by using a robust matching engine that facilitates more efficient and cost-effective processing. It provides for straight-through processing in an open environment; buyers and sellers don't need to be part of a closed exchange.

Citi is a founding member and enthusiastic participant in the TSU initiative, which helps banks stay relevant in the supply chain as more companies move away from letters of credit and toward open account trading.

### **A powerful open account combination**

As market leaders in global trade recognise the tremendous competitive

opportunities of integrating their physical and financial supply chains, their financial partners are offering ways to help them take advantage of the speed and efficiency of open account trading. Many banks are now aligning with Citi to provide a comprehensive array of products, including open account solutions.

A vast, market-leading branch network. End-to-end operational expertise. And a robust technology infrastructure. It's a powerful combination for banks to offer their cross-border clients who are looking for a suite of trade financing solutions. And it's a combination that can be leveraged via a partnership with Citi.

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