Banks plunge into e-trade finance

BY VIVIAN SCHLESINGER

When the second-largest exporter in the U.S. learned that its banks weren't even close to offering Internet alternatives to paper-based export financing, E.I. DuPont de Nemours & Co. moved as cautiously as befits a company with about $26 billion in revenue last year.

DuPont, which centralizes its export financing through an internal service bureau, tested a multinational bank's new web-based platform at two of its 70 subsidiaries for two years. In August, a satisfied DuPont migrated all export financing, roughly 10,000 transactions annually, to Netherlands-based ABN Amro's MaxTrad, an online platform for trade financing that provides access through a web browser. Users can go online and initiate purchase orders and track financing through payment assurance, fulfillment, compliance and settlement.

Wilmington, Del.-based DuPont has been pleased with the results. A financing cycle that took 45 to 90 days has been trimmed by an average of six days. Forwarders, who were notoriously prone to errors in typed documentation, are no longer making mistakes on the web forms they're accessing through a simple Internet connection. In the past, the slightest misspelling of a name would hold up delivery until DuPont's export credit managers could speak with banks and then call the customs agency to OK release of the goods. Instead of counting the number of complaints, DuPont is counting only compliments for a bureau that serves about 200 company credit analysts doing business in 140 countries.

"We're getting our money quicker; we identify money coming into our system faster and lessened the unidentified funds coming in, which is a time consumer," said David Brown, DuPont's export credit manager.

Along with San Francisco-based Wells Fargo and Bank of America, JPMorganChase and ABN Amro are among a small group of banks that, having sat on the sidelines for years, are now spending millions to put a web dashboard on their expansive cross-border trade-finance portfolios. They believe the time has finally come to create online superstores that span the gamut of trade financing and target customers of all sizes, including other banks, to which they'll wholesale their services.

"I think it's a giant step, monumental, big-big," said Donna Sharp, executive director of the New York-based World Trade Institute.

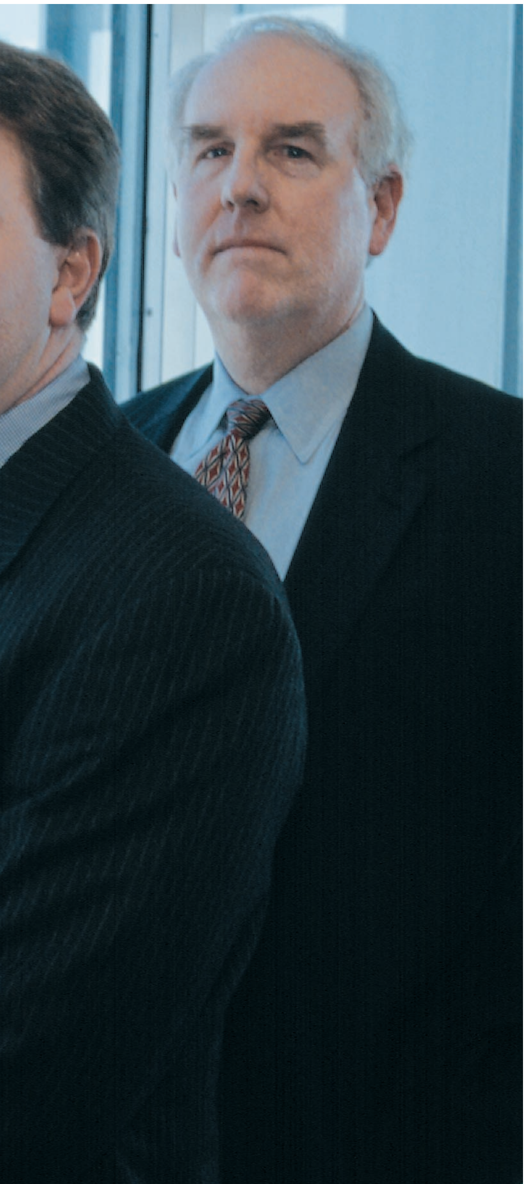
Sharp said she'd never initiate a letter of credit through a technology firm because they can't offer the same security or expertise. Banks are also well-positioned because they own the infrastructure and have a reputation for being conservative and financially stable organizations. "If they were too flighty, they'd be like the whole Internet crash," Sharp said.

"Non-bank entities tried to compete with us, but they don't have the combination. They have bits and pieces of it," said Sanjay Tandon, senior vice president and global head of product management at ABN Amro.

Banking's slow metamorphosis into

Waiting out dot-com boom and bust, JPMorgan, ABN Amro and others have found technology and customers at the ready

online service providers comes after the dot-com craze and resulting meltdown. During that time, non-bank competitors such as LCconnect, CCEWeb and Bolero educated exporters and importers about the benefits of web solutions and provided banks with a sense of urgency about doing so themselves. Now, like the third act in a play, banks are picking up the pieces, acquiring early movers on the cheap or creating their own systems with the advantage of hindsight. "In either case, their relative inaction proved fortuitous," said David Edwards, chief executive of Zanthus, a high-tech market research firm in Portland, Ore. "Contrary to the conventional wisdom during the dot-com boom, first movers don't automatically capture all, or even most, of the value in a market."



JPMorgan's Paul Simpson, left, head of trade services, and Bruce Proctor, right, chief of product management, say exporters get paid faster and importers can tighten their supply chains through use of the company's Trade Information Exchange. The company will reassess its commitment to web-based trade finance in five years.

Megan Greenlee

Schaumburg, Ill.-based Motorola can tell a story similar to that of DuPont. The telecommunications manufacturer cut its export-transaction cycle from 34 to 10 days using JPMorgan's TIE, or Trade Information Exchange.

"We've been able to help exporters get paid faster, and for importers, we've solved the problem of, 'How can I manage my inventory tighter,' " said Paul Simpson, JPMorgan's global head of trade services.

ABN Amro's Global Trade and Advisory Group built its system in-house over the past three years, while JPMorgan is using technology from upstart firms that survived the dot-com boom and bust, such as London-based Bolero and New York-based TradeCard.

JPMorgan views its effort as a gamble nonetheless. "The thinking was that if we don't place some bets, we're going to miss this thing," said Bruce Proctor, JPMorgan's head of product management at its Global Trade Services unit.

In five years, the company will reassess its commitment to the web. "If it doesn't pay, we'll have plenty of other places to put our capital," Proctor said.

The decision to buy licenses from TradeCard and Bolero to use and, in some cases, resell competing products has allowed JPMorgan to quickly provide market-tested electronic trade finance products and deliver them through secured web channels.

"We've really tried to get over the not-invented-here problem," Proctor said. "We realize there are a lot of good ideas on the market, very good ideas on how things should be done in the future."

So far, banks are reporting good reception from the market. "We're seeing a tremendous shift from paper to Maxtrad-initiated transactions," said David Cooperman, executive director and global head of solutions development at the ABN Amro Global Trade and Advisory unit.

David Cooperman

Whether pricing will drop along with the cost of doing business remains to be seen. Today, importers and exporters are enjoying the benefits of the banks' investments on the banks' dime. At DuPont, transaction fees are based on current market rates, while use of the online system is free. "It's competitive with what we had before, but the technology makes it so much better," said DuPont's David Weidinger, global manager of exports.

David Edwards

The banks are obviously using the technology with the aim of protecting their market share. If enough competition remains in the market, exporters and importers of all sizes will see the savings. However, if consolidation continues and the banks are successful in attracting a wide base of users, they may keep the added savings for themselves.

"The JPMorgans of the world do not spend money unless they are going to get it back," said Geoffrey Moore, president of The Chasm Group, of San Mateo, Calif., and author of one of the best-read books on technology life cycles, *Inside the Tornado*.

"Are they going to pass on the savings to the importers and exporters," Moore said. "Or is it a case of defending their positions — do I just have to be better than the old way?" ◆