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MT798: A Solution for Trade Efficiency

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Trade finance solutions are essential for multinational corporations to mitigate risks inherent in the import and export process.

Before the financial crisis of 2008, we saw a decline in the use of traditional trade instruments in favor of open account structures, as there was a widespread perception that cross-border risk was becoming less prevalent and that banks could take a subordinate role within the structure of the transaction. It was also perceived that open account transactions can be conducted more quickly and with higher levels of automation.

The crisis illustrated, however, that managing trade risk remains an essential task for treasurers and finance managers of businesses that import or export goods, particularly to or from emerging markets where less credit information may be readily available, or regions that are politically or economically volatile.

Evolution of Bank Communication for Trade

An ongoing dilemma for treasurers and finance managers leveraging trade instruments such as letters of credit (LCs) is how to automate and streamline bank communication and integrate processes with internal systems. This is particularly complex due to the amount of documentation typically required to support a trade transaction, and the diversity found in the front-end systems in their partner banks.

We have seen two parallel developments in recent years to support more efficient trade processing: internal centralization and innovations in bank communications. Internally, many companies have centralized and standardized their trade processing, which is often a vital first step in resolving the challenge of fragmented processes and formats within the business. In tandem, we have been instrumental in developing innovations in corporate-to-bank communication for trade.

Forty years ago, a physical letter had to be signed by an officer of the company and countersigned by the bank. Mailed letters were then replaced by telex communications, fax and email. More recently, leading banks and vendors have invested considerably in online platforms to automate and streamline international trade, and support closer integration with customers' internal systems.

Despite the often considerable sophistication of these solutions,companies that work with multiple banks typically need to work with multiple platforms, maintain separate interfaces with their in-house systems, undertake separate approval processes and manage different security profiles. This results in fragmented processes, higher costs and operational risk.

Opportunities through SWIFT

SWIFT's bank-to-bank communication platform has become widely accepted as a platform for bank-to-corporate communication in recent years.

Unlike traditional bank proprietary systems, corporations can connect with multiple banking partners through a single channel. This streamlines integration and communication, facilitates standardized processes and reduces operational risk. Furthermore, as a bank-neutral platform, corporations are less reliant on individual banking partners and can introduce new banks easily without the need for additional technology.

Although SWIFT was originally chosen by the largest multinational corporations that often had a very large number of banking partners, the spectrum of businesses adopting SWIFT has now expanded substantially, encouraged by growth of service bureaus that provide SWIFT connectivity services without the need for the company to invest in these skills, and SWIFT's introduction of Alliance Lite and Alliance Lite2, web-based solutions that have further lowered the barriers to entry.

In most cases, corporations have used SWIFT to exchange cash-related information such as urgent and bulk payments and bank account statements. Earlier this year, SWIFT introduced MT798, a new message type for trade-related messages, including import and export documentary credits, standby LCs and demand guarantees. The MT798 message is effectively an "envelope" into which all actions and information related to a transaction can be included and exchanged with the relevant banking partner, whether or not a corporation is the issuer or receiver of an LC or other trade instrument.

Benefits of MT798

There is a range of advantages to using SWIFT for trade finance communications. In many cases, a company may already be using SWIFT for cash-related activities, in which case adding another service is relatively straightforward. Equally, however, the need to transact trade transactions in a more efficient, streamlined and bank-agnostic way may also be a driver to implement SWIFT for the first time. Some of these advantages include the following:

- By leveraging a single communications platform, companies no longer need to use and maintain separate online platforms provided by each bank.

- Integration is more straightforward, as only one interface needs to be set up to/from SWIFT, replacing multiple interfaces that may have been required in the past.

- By streamlining integration and communications, processes can be standardized and automated. In addition to ensuring greater efficiency, this may also improve accuracy by eliminating the need to rekey data.

- A consistent approach to approvals and security rights can be introduced, reducing operational risk and increasing convenience.

- As a highly robust communications platform, bank communications are extremely reliable, with proven performance data.

Companies that use SWIFT for a variety of services, such as payments, account statements and trade, derive further benefits by consolidating their bank communication channels. MT798 brings substantial opportunities for international importers and exporters, particularly those that have multiple banking partners. Clearly the time and effort required for implementation will depend on whether an organization already has SWIFT in place, but we anticipate rapid adoption among our multinational corporate customer base.