

Bank of America's Dan Scanlan is driving his institution's trade services strategy, with broader offerings and partnerships to the fore.



Dan Scanlan,
Bank of America

The rise in importance and broadening of scope of trade services is an undeniable shift of the last couple of years. Banks have been seeking to respond to the challenge of closing the gap between physical and financial supply chains, providing value-add services that bring them closer to the customer's business. As one of the traditional leaders, Bank of America has not been immune from the changes, taking a line centred largely on its own efforts and partnerships rather than embodying existing or emerging market utilities.

As senior vice president, global product manager for trade at BoA, Dan Scanlan is at the forefront of the bank's efforts to move with the times. In the last couple of years, he says, clients have been wanting more and more assistance from banks on supply chain issues. The move to open account is a reality and he believes banks can play a role here, providing the same kinds of processing, document examination and payables outsourcing services. 'Essentially, it is taking what we do in the LCs space and moving it into open account, examining documents and data that have been submitted by vendors and then providing data back to the buyers that tells them exactly what was submitted and how it links back to their original purchase orders etc.'

On the financing side, the shift to open account means a lot of buyers are looking to extend their payment terms, creating a financing gap. One of the ways that BoA is seeking to fill this gap is through its Trade Payables Discounting Program. Buyers can post invoices onto the web site and these can be accessed by suppliers, giving visibility into the cash flows associated with trade payables. Buyers can collaborate online with suppliers on credit memos and other invoice offsets, while BoA can provide 'on-demand' financing at the invoice level by discounting their accounts receivable due from the buyers.

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The theory sounds fine and Scanlan says BoA has 'a couple of mandates', with these being implemented and a 'pretty strong pipeline'. However, the sales cycle is proving longer than anticipated. The service has the potential to free up a lot of cash for the buyers but changes the way they conduct their business, so there is some need to educate the clients about what is a relatively new concept in the market. One aspect is concern over accounting, with one or two early payment discount programmes hitting issues with the regulators (one involved GE) so many clients are 'sitting on the sidelines'. 'We believe our solution is accounting neutral,' says Scanlan.

BoA has teamed up with Atlanta-based **PrimeRevenue Inc** which provides automated supplier finance, payables presentment and financial settlement services. 'They were already in the marketplace, trying to slug it out on their own. No one knew who they were and although they had a great system and a lot of intellectual capital in this space, they just were not able to win business.' There was eight months of due diligence before BoA entered into the agreement. The main two rivals cited by Scanlan in this emerging space are JPMorgan Chase and Citibank.

Traditionally, a large part of BoA's trade services architecture has been based on the AMS-derived, mainframe-based Tradeline system and an in-house platform called Systems for Documentary Settlement (SDS). There is also a web-based client access solution, Trade Direct, which was built with S1 Corporation (and hit the headlines when it attracted a patent infringement lawsuit from trade finance utility, Tradecard, with a federal jury deciding against Tradecard earlier this year). The bank and S1 also developed a Purchase Order Processing System (POPS). Most processing has been out of Hong Kong, handling payments, LC issuance, accounting, messaging and other common activities. At least half of the resources in trade processing have now been moved to Guangzhou in southern China. This move is on schedule in terms of moving work and functions, says Scanlan. One other major change which is at an earlier stage is replacing the core trade services platform with a more modern solution. This would be a global, web-based platform. 'We would do this with a third party, that is our thinking up to this point.' While Scanlan declines to give names, he says a decision is close. 'We do have a business case put together and it is in the approval process.'

One area that BoA has shied away from has been the provision of fully-blown trade services outsourcing, as offered by ABN Amro and Wachovia in particular. For outsourcing BoA is focused on the Hong Kong/China issuance piece, so with Wachovia a particular rival here as it is also strong in the provision of document checking, out of Hong Kong. In this activity, cost is a strong factor, says Scanlan, but also coverage in the region.

Scanlan questions the long-term viability of the full outsource model. 'We don't necessarily think that the full outsourcing model, as propagated by some of our competitors, makes a lot of sense. We scratch our heads as to how they can make money. From our perspective, the business model for some of these providers is not sustainable in the long run. Particularly if you look at some players, they were willing to go in and commit for what we thought was really a very small amount of money.'

They then have to build interfaces between their own back office and the customer's general ledger, DDA system and other applications, they have also sometimes put people into the client's premises to provide services, and yet they have what he feels is a 'very low price for processing'. 'They are actually acting much like a software company.' As such, customers might find themselves in 'three, five, perhaps ten years' in an untenable position, where they are locked in and their outsource provider has to double the price because it is losing money on the service. 'For us, the idea is that you continue to do your own processing, we can certainly help you with that, but we work together to maximise the revenue side.'

What of the industry utilities that are out there or emerging? BoA has been involved with the design of the Trade Services Utility (TSU) over the last couple of years but is not in the current pilot programme. This, says Scanlan, was because the bank was in the middle of its merger with FleetBoston at the time the pilot started. 'The timing wasn't very good.' As with other banks, BoA is taking a 'wait and see' approach, looking at what comes out of the pilot and where it might fit within the bank's own environment.

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Scanlan points out that one of the reasons BoA was originally asked to work on the TSU design was the work that it had done on its own purchase order processing system.

The bank has also shied away from Bolero. 'We have not seen a lot of client demand, it doesn't crop up very often, and until we see that, with so many other things going on, it will not be top of our priority list.' Glencore is not a major customer of BoA so has not exerted the same pull into Bolero that it has had on some others.

It seems more likely that BoA's partners on the trade services side will be specialists in the physical supply chain. The bank is putting in place a number of alliances to provide a more comprehensive solution to customers, not just about payments but about all of the processes leading up to the payment, perhaps with financing capabilities in there as well. Such partners will provide software, services and visibility around the supply chain to BoA's customers. Scanlan gives the example of a company that is shipping goods out of China but has them in a warehouse for three weeks before they are loaded onto a boat. If BoA had a relationship with the owner of the warehouse then it could verify that the goods had arrived and potentially lend versus those goods. He declines to name specific partners at present but says BoA doesn't want to dictate to its customers who to work with in the logistics space.

In conclusion, Scanlan says there is no doubt that the speed of evolution in the trade services sector is increasing, with the convergence of the physical and financial supply chains to the fore. There is a lot of jockeying for position and rethinking of focus, services and infrastructure, with this clear on all fronts at BoA.