

Bank Payment Obligation Product Quick Start Guide

The following are the key points of focus when considering launching the Bank Payment Obligation as a product in your organization. It is not all inclusive and compliance with your firm's new product/business initiation approval process must be abided by.

I. Business Case

Description of the BPO process, potential and offering and how it fits in your overall Trade and Supply Chain Finance strategy.

1. Revenues:

a) Fees for payment assurance/ risk mitigation:

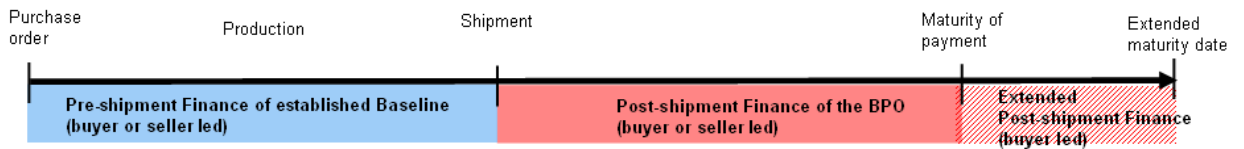
Import BPO: i.e. irrevocable payment commission., deferred payment commission

Export BPO: i.e. deferred payment commission, confirmation comm. for silent confirmation

b) Financing fee:

The BPO acts as an enabling framework for Supply Chain Finance and offers finance possibilities in favour of the seller and under the payment undertaking of buyer's bank.

Financing can be instructed by order of the seller, the buyer or the bank.



Source: Global SCF Forum, Standard Definitions of Techniques of Supply Chain Finance

c) Handling fee per presentation of data set for data handling, bookings, amendments etc.

2. New business potential:

With focus on the growing volume of open account business, the BPO offers mitigation of payment risk and in addition finance options for an improved provision of liquidity for the seller and working capital optimization for the buyer by benefiting from extended payment terms. (BPO as alternative to bank guarantees or export credit insurances)

BPO as new instrument for digitized processing in trade (fast & flexible processing, increased transparency, automatic matching of data instead of manual doc checking)

Due to the 4-corner model, the BPO supports increased business with partner banks.

3. Prevention of impending losses:

BPO as alternative for simple structured and recurrent letters of credit.

4. Solution for all customer segments on the import and export side:

With various advantages of the BPO, the new instrument serves SMEs, Large Corporates and Multinationals.

5. Potential Markets:

To be analysed on the basis of BPO live and BPO ready banks and business streams of corporates.

6. Competitive positioning:

Market leadership, innovation
"staying in the game"

II. Operational Processing:

1. Data matching

- Bank-to-Bank: data exchange on SWIFT TSU
- Customer-to-Bank (vice versa) for provision of data:
 - 1st step by fax/email and manual data input (by bank) on SWIFT TSU
 - 2nd step implementation of a BPO FrontEnd for digital provision of data

2. Back-Office handling:

(for bookings, compliance checks, effecting payments etc.)

Establish a small team in Operations who focus on the TSU and BPO

Analyze the difference between the LC and the BPO and establish specific operating procedures

Due to the fact that BPO processes are very similar to LC processes, it is recommended to use the LC back-office system for the back-office handling of the BPO transactions.

III. Legal issues

Legal relationships (rules and contracts):

- Bank-to-Bank:
 - Uniform Rules for Bank Payment Obligations (URBPO), ICC Publication No. 750E
- Customer-to-Bank:
 - BPO master agreements for the Export BPO and Import BPO separately, with reference to the

ICC Model Contract Guide.
Finance contracts for import and/or export financing.

IV. Regulatory Issues

Regarding Compliance, AML, Sanctions etc. , refer to your LC processes and handling.

If your AML screening application is not linked with SWIFT TSU develop manual sanctions checking procedures

V. Finance Issues

Reporting and monitoring is similar to the LC business procedures, but BPO transactions should be kept separate from LC transactions or should be identified as BPO transactions for monitoring purposes.

Agree the application of your credit policy to BPO with the appropriate resources in your bank

Develop pricing parameters for BPO and its related services

VI. Testing/ Training

1. Technical testing and training

- Obtain access to SWIFT TSU platform by contacting SWIFT for licence and SWIFT TSU BIC8 Code
- Training by SWIFT
- Testing
 - 1st internally in SWIFT TSU test environment
 - 2nd testing with SWIFT
 - 3rd testing with other BPO bank (to obtain status of BPO ready Bank)

2. Training of internal bank staff

(Back- Office staff and Sales Specialists)

3. Transfer of BPO knowledge

Develop internal and external marketing materials addressing BPO solutions

Provide training to a wider group of internal staff (Sales Specialists, Relationship Management, Back-Office), Corporates, Partner banks

VII. Identification of potential BPO transactions (BPO corporates: 'matching couples')

- Data mining, business analysis with focus on BPO live and ready banks
- Identify criteria for prospective BPO users
- Providing support to adopting banks to get BPO ready (snowball effect)