

More than ever, it is vital for both corporates and banks to embrace the BPO as a pillar of their digitalization strategy for trade finance, says Raphael Barisaac, Head of Trade Finance products at UniCredit

The time has come for the Bank Payment Obligation (BPO) to make its mark. As banks and corporates invest heavily in various digitalization strategies and initiatives, the BPO stands out as an important element in the digitalization of trade finance flows.

Still a relatively new financial instrument, the BPO remains much misunderstood. Its capacity for mitigating risk exposure in international trade (as an alternative to open account settlement) has led many to the mistaken conclusion that the BPO is simply a replacement for the letter of credit. This is not the case.

Rather, the BPO can help address four main challenges:

- Where Buyer and Seller are unhappy with current settlement instruments in use from various reasons.
- Mounting risks for corporates trading with the emerging markets;
- The need for banks to collect huge amounts of information for screening and checking international trade transactions;
- The predominance of cumbersome paper-based processes in trade finance.

These are areas where the BPO comes into its own. With standardized data generation and full digital compatibility, this innovative settlement method promises to reduce banks' administrative troubles, while providing corporates with a safe and compelling alternative to the current instrument in use.

Of course, many of these benefits draw upon the BPO's



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digital compatibility – something we at UniCredit have been keen to capitalize on. With this in mind, we have built an award-winning client platform that digitalizes the process, and moving a step closer to fully digital trade finance flows.

The challenges of implementation

However, the process of introducing a product such as the BPO is not an easy one. The instrument is not self-explanatory and education – through training sessions, seminars and the like – is required to explain its benefits.

In Italy, for example, UniCredit was the first bank to offer the BPO to its clients and is now actively participating in numerous initiatives, sometimes jointly with SWIFT, to educate local industrial forums about the BPO, its usage, and its advantages.

However, bank adoption of the BPO is not growing as anticipated, and this is hampering business growth. At UniCredit, for example, we find we are unable to support certain transactions because there are no BPO-ready banks in the counterparty's country.

Recent discussions with colleagues from other banks revealed that they found it difficult to explain the BPO to their network – particularly how and when it should be offered to clients.

At the end of the day, in order for BPO to be successful, it has to be profitable for all the relevant parties

Unfortunately, with so many financial innovations coming through in the retail and SME sectors – from peer-to-peer (P2P) lending to crowd-funding – the BPO is struggling to achieve the level of hype enjoyed by other fintech solutions. Certainly, with clients keen to know instantly what's in it for them, differentiating the BPO's benefits and increasing the adoption rate has proved a challenging task.

Investing for the future

Yet, at UniCredit, we have found that, once clients start using the BPO, they like it a lot. Indeed, pilot transactions quickly evolve into regular use of the BPO, with clients keen to expand their BPO relationships to other counterparts. Certainly, this is a very positive indicator – offering reassurance that the BPO really does add value for corporates.

Of course, when it comes to the broader goal of forging a sustainable future for trade finance, the BPO is just one part of the solution. Many other factors must also feed in, with comprehensive digitalization of the entire trade finance industry an essential goal.

The BPO can play a symbolic role in this process – acting as a beacon for future efforts to increase digitalization and decrease risk in trade finance.

In time, banks will need to invest in digitalizing their BPO processes anyhow – in order to meet the requirements of due diligence and business evolution. By investing today, they can anticipate this future investment – and benefit from being one of the first movers in this important space.