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Case Study: ABB Rolls-out a Global Trade Finance Solution

Peter Gisler, *ABB* - *23 April 2014*

Asea Brown Boveri (ABB), the Switzerland-based power and automation technologies multinational, employs 150,000 worldwide and operates in around 100 countries. As Peter Gisler, its group vice president, head of export and trade finance, explains in this article, ABB had been operating a decentralised set of different trade finance solutions around its global network of subsidiaries and joint ventures. This meant no central visibility of the trade finance business, so the utilisation of bank credit facilities was very inefficient. Duplicating similar business processes was also expensive.

To address the problem ABB executed a complex global systems project to select, implement and operate a single solution for trade finance. Its key objectives were to optimise credit line utilisation, achieve global visibility of the business, improve reporting and compliance, and to roll-out an efficient, cost-effective solution to benefit ABB's worldwide enterprise.

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Trade Finance at ABB

ABB's export and trade finance department is a centre of professional competence, based in the group treasury and finance organisation located at its Zurich corporate headquarters. As head of the department, I report to the group treasurer, who in turn reports to the group chief financial officer (CFO).

ABB organises its trade finance operations so that legal entities around the world execute and administer their letters of credit (L/Cs) portfolio and bank guarantee transactions. Centrally, the department is responsible for administrating parent company guarantees for the group holding companies, and for global management of all bank credit lines and facilities, umbrella agreements and frame agreements connected with trade finance Instruments. The team allocates credit as needed across the ABB network, to facilitate global export and trade business as efficiently and cost effectively as possible.

The department has a range of central reporting responsibilities, including global bank risk measurement and management, credit line utilisation, availability and analysis, the review of contingent exposures, and Sarbanes-Oxley (SOX) compliance and reporting.

The central organisation includes two teams in Zurich, plus a team of six in the ABB IS and finance support centre in Krakow, Poland; and there are eight teams globally, located in various countries. The Krakow team is responsible for back office operations, and provides first level support for all global users, including system support and application management. Two Krakow team members focus on trade finance support. Some of the related functions we perform include short, medium and long-term customer finance, receivables factoring, discounting and financing, supplier financing and offset and counter trade business management.

The Business Issue

The essential problem confronting the department was the lack of central visibility in the trade finance business processes, which were very decentralised and diverse. ABB's business operations extend to about 100 countries, and the business units operated different solutions and systems, such as bank proprietary systems, to support administration of their trade finance requirements. An investigation revealed hundreds of different local credit agreements in place. This was highly inefficient and clearly a new, globally-centralised solution was needed, to optimise terms and conditions and re-allocate credit lines as required, so that unutilised lines could be efficiently put to work where needed in other parts of the group.

On completion of the initial analysis, it was evident that a single system solution represented the best way forward and support for trade finance operations for all ABB business units worldwide should be delivered by a single application.

Scope of the Planned Solution

A project was authorised, budgeted and began identifying and rolling-out a worldwide harmonised trade finance process to address parent company guarantees; bank guarantees; incoming guarantees and both import and export L/Cs. An important business objective of the project was worldwide optimisation of ABB's bank limit utilisation.

The detailed objectives were based on implementing a central installation with remote access for all of the group's global business units. The solution should include central reporting based upon immediately available trade finance data and provide full audit support of all trade finance activities.

It was also essential that electronic connectivity to all the required banks should be delivered via ABB's preferred channel, Bolero, which incorporates standardised messaging for trade related financial transactions. The trade finance transaction volumes to be accommodated

include 1,000-2,000 L/Cs, around 35,000-38,000 guarantees issued by ABB, and 2,000-3,000 incoming guarantees in favour of ABB.

The Selection Project

The author managed the system selection project supported by team's head of guarantees, Brigitte Bruengger, other ABB executives and consultants from PwC. The evaluation and selection process required a year for completion, reflecting the truly global scope of the business issue being addressed. The team evaluated three alternative solutions in detail, and eventually selected Surecomp's COR-TF system. Its initial approach involved the design of a request for proposal (RFP) and its issuance to a number of software companies. Based on an evaluation of the responses, members selected a short-list, and followed through with demonstrations, workshops and visits to reference clients. Surecomp's solution met all essential functional requirements.

It was also essential to ABB that the solution met the essential technical demands of our corporate IT policy. Specifically, the group needed a solution that would be installed and operated behind ABB's corporate firewall, so the team would be hosting the system, and controlling the whole global trade finance database. The selected solution provided the highest level of flexibility, and was the only offering that enabled the client to identify the message carrier.

The Implementation Project

The system was implemented in a global roll-out operation involving ABB's 29 core banks that provide specialist trade finance services, plus some further non-core banks to provide the full set of services needed on a worldwide basis.

Central elements of the implementation were:

- Optimise Bolero structured message types for bank guarantees.
- Set-up of a highly sophisticated bank limit administration.
- Provision of external bank connectivity via Bolero.
- Embedding the worldwide ABB group structure in COR-TF and allowing related configuration features.
- Configuring internal interfaces to the central data sources.
- Using the COR-TF report generator for producing central exposure reports.

The roll-out was a complex exercise covering about 80 countries, and ran from 2008 to this year. It has involved integrating the trade finance operations of more than 100 legal entities and joint ventures; for example, there are about 30 in China alone. Some entities have complicated organisational structures, which must be reflected in the implementation.

Implementation Challenges

ABB decided to implement the roll-out with the existing team, rather than setting up a separate establishment. This proved to be a demanding exercise, as the trade finance team also needed to perform its everyday work. The demands of the roll-out included its global scale, the need for extensive travel to understand and resolve a range of local issues, requirements and processes, for securing end user buy-in, and for delivery of the necessary training to the staff. With hindsight, the team should have put IS back-up facilities in place from the start; and we have now organised system administration and support functions in Krakow.

Also, structuring the guarantee process and message flow was a challenging exercise, as this needed to be supported from the carrier, Bolero, and also from the different banks' back office systems.

Benefits Achieved

The cost/benefit analysis for the project targeted achieving a positive payback flow within two years; a goal that has been accomplished. The main tangible benefits are:

- The new system solution consistently delivers annual savings of US$3m-$5m, eliminating the costs of operating and maintaining local trade finance systems.
- Major benefits are gained by exerting more effective leverage in bank negotiations through the increased quality of transparency, analysis and flexibility now achieved. This enables ABB to secure better business terms going forward.
- Identifying and clearing many expensive legacy guarantees, cutting costs significantly.
- The single COR-TF application gives full global visibility of trade finance operations.
- ABB has consequently optimised the entire bank guarantee structure, substantially reducing its bank charges.
- Automation of umbrella agreement management gives great visibility and control over credit lines, business and transaction volumes. The team can now re-allocate lines quickly, accurately and efficiently, enabling it to manage credit effectively across the global organization and move surplus lines to where needed.
- An additional system benefit involves extending the Bolero data channel for enhanced management of structured guaranty transactions. This innovation required designing and developing new financial messaging types, and needed global integration for delivery. Part of the process involved convincing several banks of the value of this innovative development. Much work and testing was needed to implement what has proved to be a valuable automation advance.
- ABB is consistently saving costs through more efficient trade finance housekeeping, and reducing paper-based operations.

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