THE POWER OF THE PROCESS

In 2014 BP carried out the first live BPO, exchanging only data and no paper. What advantages does this new payment system offer?
BPO in brief
Bank Payment Obligation (BPO) is an irrevocable undertaking by one bank to pay another at sight or at maturity in which only commercial data are exchanged, thereby bypassing the need for paper records.

World trade has seen a startling increase in open account transactions over recent years: today more than 80% of total world trade by volume is settled by clean payment.

This means speed and flexibility are huge challenges for every company in every sector – and banks have to keep pace by offering clients fully automated processing combined with payment assurance and financing options.

BPO is a new method of trade financing that enables banks to offer their corporate customers flexible risk mitigation and financing services across the supply chain.

So, last April, in collaboration with BNP Paribas, BP performed the first live BPO transaction in Europe in an operation that was awarded Trade Financing Deal of the Year 2014 by Trade & Forfaiting Review. BP’s Michael Van Steenwinkel discusses the benefits of the new approach.

Which trade tools were you using before?
Given the counterparties we are dealing with and the countries involved, the vast majority of our secured payment transactions are processed through documentary letters of credit, stand-by letters of credit, bank guarantees or documentary collections. It is a must in our sector. We need to monitor credit risk – not only corporate credit risk, but country risk, too.

What triggered your decision to use BPO?
Generally speaking, the more flexibility we have in our international trade and bank operations, the better for the organisation at all levels. Documentary operations take time; time for issuance, time for amendments and time for payment. No specific event made us think about BPO, but we consider speed and flexibility to be the main advantages of the solution.

How does BPO help you?
What are its main benefits?
Our business model requires strong and accurate risk mitigation. To ensure the company’s objectives are met, we need to be paid on time in a quick and flexible way. The ease and speed of making amendments is important. To give you an example, when a documentary letter of credit gets issued, it can easily take up to two or three days before an amendment is made. With the BPO, making amendments – which happens quite frequently – can be done in a few hours.

Another advantage is that the credit lines of the importers are used for a shorter time than with the documentary letter of credit or with a stand-by letter of credit.

What milestones do you have to reach before performing a live transaction?
We must bear in mind that the BPO is a new product. With new products there’s always development issues at different levels. A first level is education: a lot of people don’t know the product yet and stepping into the unknown is sometimes a tough thing to do. A second aspect is around readiness of all parties involved; not only corporates but banks, too, need to be ready and able to step into the new adventure.

Did BPO mean a different set-up and approach for your team?
Once people were informed, trained and aware of the new process, they adapted. The BPO helped them to focus on value-adding things. Only data are exchanged; paper copies remain outside the banking system, so documents are available quicker and the customer has faster access to the goods.

How did your counterparts react to the new process?
All stakeholders benefit from the flexibility and speed compared to traditional documentary operations. It also means lower costs for our clients, since their banking lines have a quicker turnaround. We now have a recurring stream of BPOs with one customer – experiences are positive on both sides.

To whom would you recommend the BPO?
In my view, the BPO is valuable for many sectors and many types of companies. From the moment you want to mitigate the credit risk of the corporate without having to worry too much about the country risk (for which you would typically use a confirmed letter of credit or stand-by letter of credit), the BPO solution is a very usable product.

What is your experience of using banking-related digital tools? What issues need to be addressed?
So far, my experience has been limited but positive. It is hard to predict what the future will bring. The BPO is a new product, so a lot of aspects need to be worked out over the next few years and incorporated into URBPO [Uniform Rules for Bank Payment Obligation, which will establish uniformity of practice in the market adoption of the BPO]. I also see a need to expand the offer towards a ‘confirmed’ BPO or towards the BPO offering financing to its counterparts.

The fact that it is an electronic product definitively creates opportunities for dematerialisation. In a parallel way, the use of e-documents (like electronic bills of lading) would be a good extension of the concept of digital tools in the banking world. I do think this will become part of the BPO at some point.

Michael Van Steenwinkel is a chemical engineer and petroleum economist. As Global Credit Manager at BP Petrochemicals, he has worked on BPO from a corporate perspective since 2011.