

# Bank Payment Obligation

The new payment assurance instrument in foreign trade



## Agenda

### Bank Payment Obligation (= BPO)

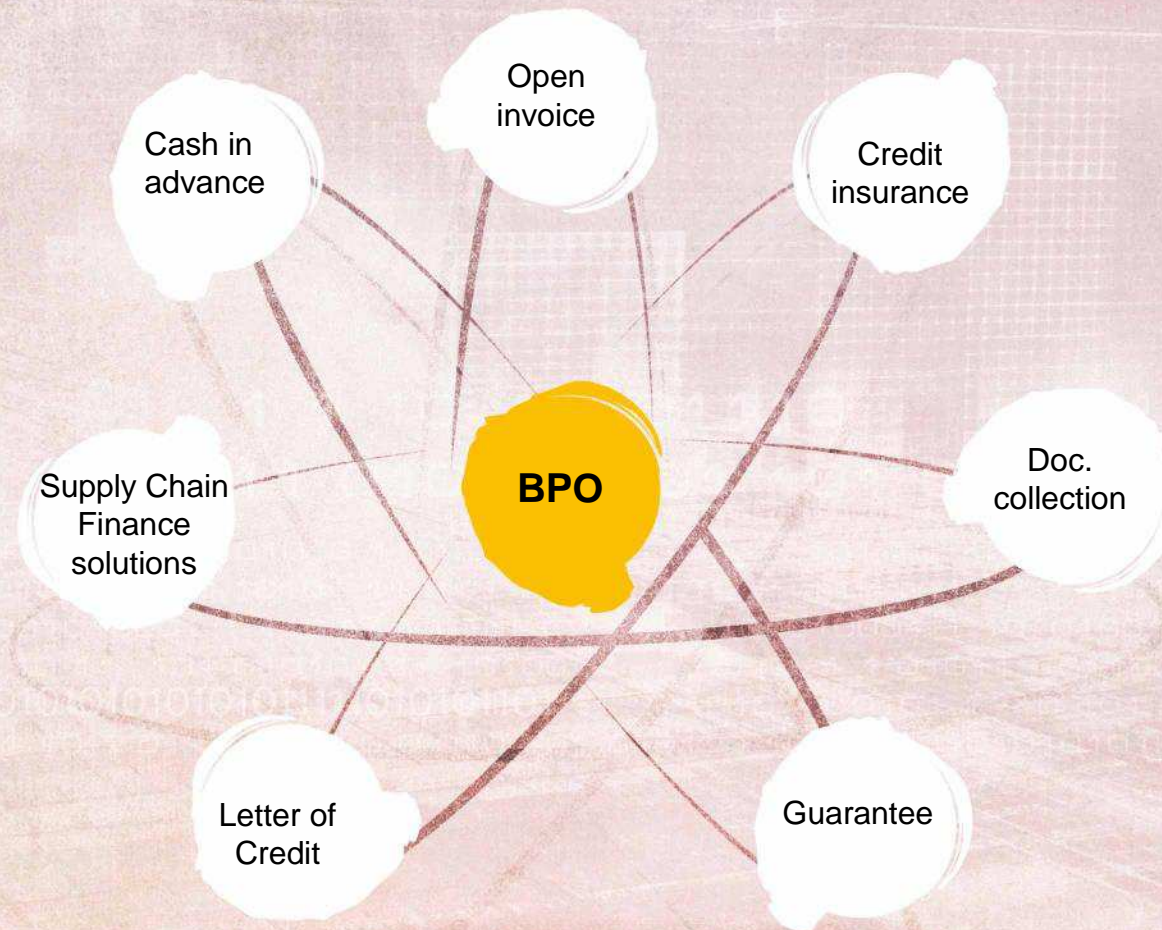
1. The innovative instrument
2. The process
3. The benefits
4. Preconditions & costs
5. Market adoption



# The innovative instrument



## Instruments in foreign trade





## The new instrument Bank Payment Obligation (= BPO)

### Trade Finance Solution

The BPO is an irrevocable abstract undertaking of the Obligor Bank to the bank of the beneficiary to execute payment on maturity date (upon successful matching of agreed electronic trade data on a platform).

### Supply Chain Finance Solution

The BPO provides new finance opportunities for open account invoices along the supply chain.



## Three components of the BPO

**Communication Standard**

**ISO 2022 TSMT** (Trade Service Management)

**Communication Channel**

**SWIFT TSU** (Trade Services Utility)  
**between banks**

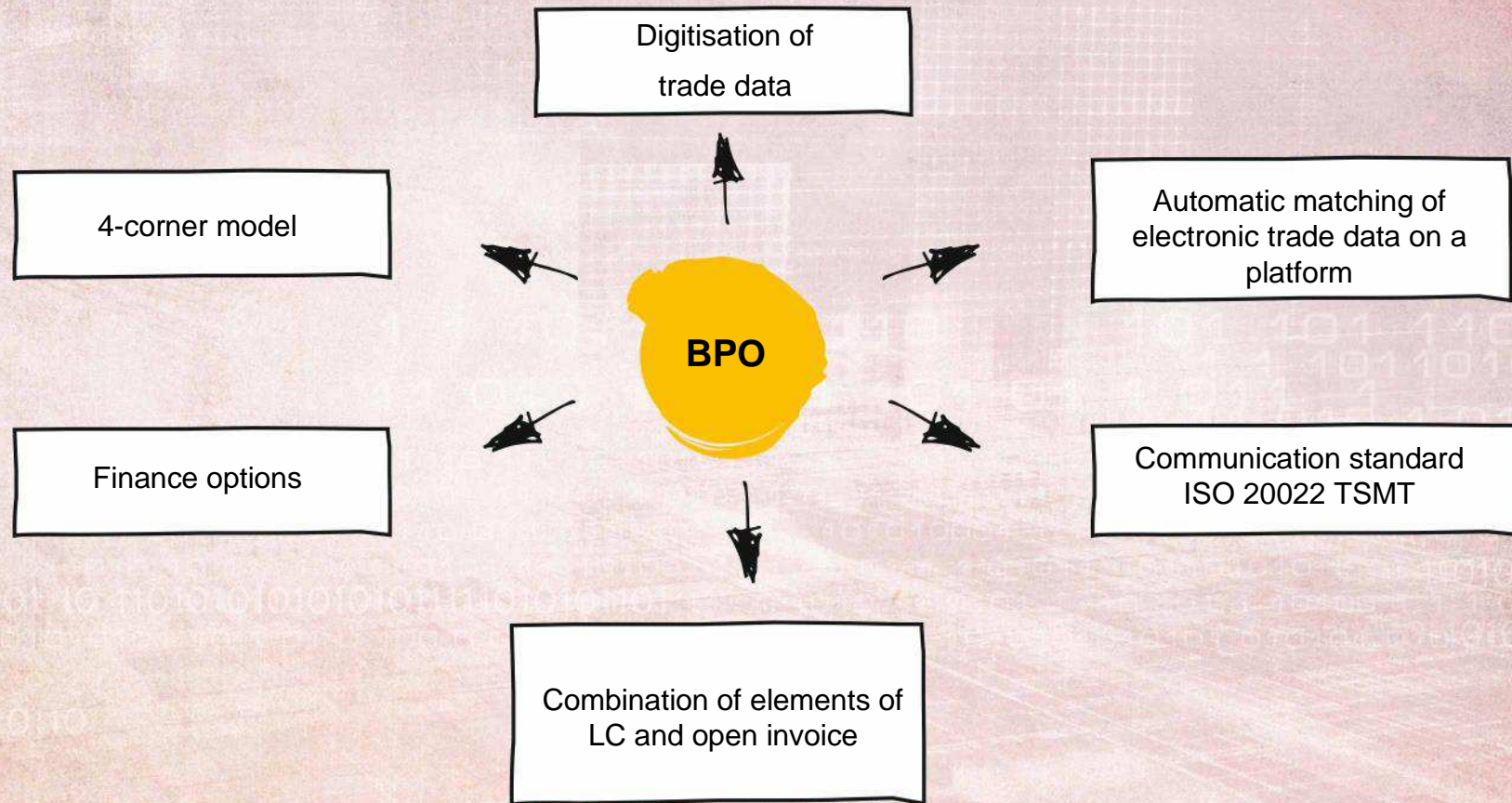
**between customer and bank to be agreed  
bilaterally**

**Payment Assurance  
Instrument**

**Bank Payment Obligation**



# Innovation & Digitisation

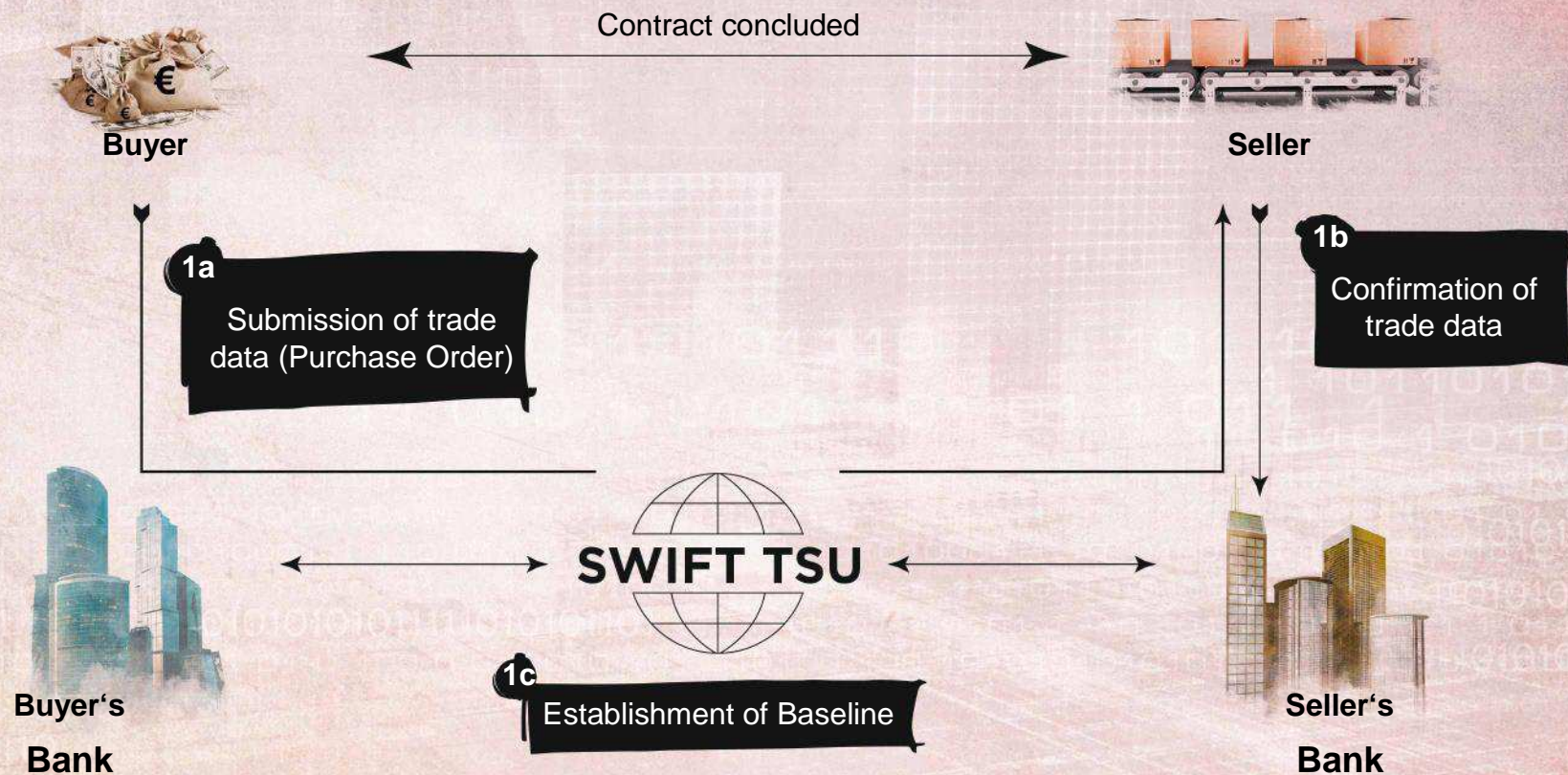




# The process

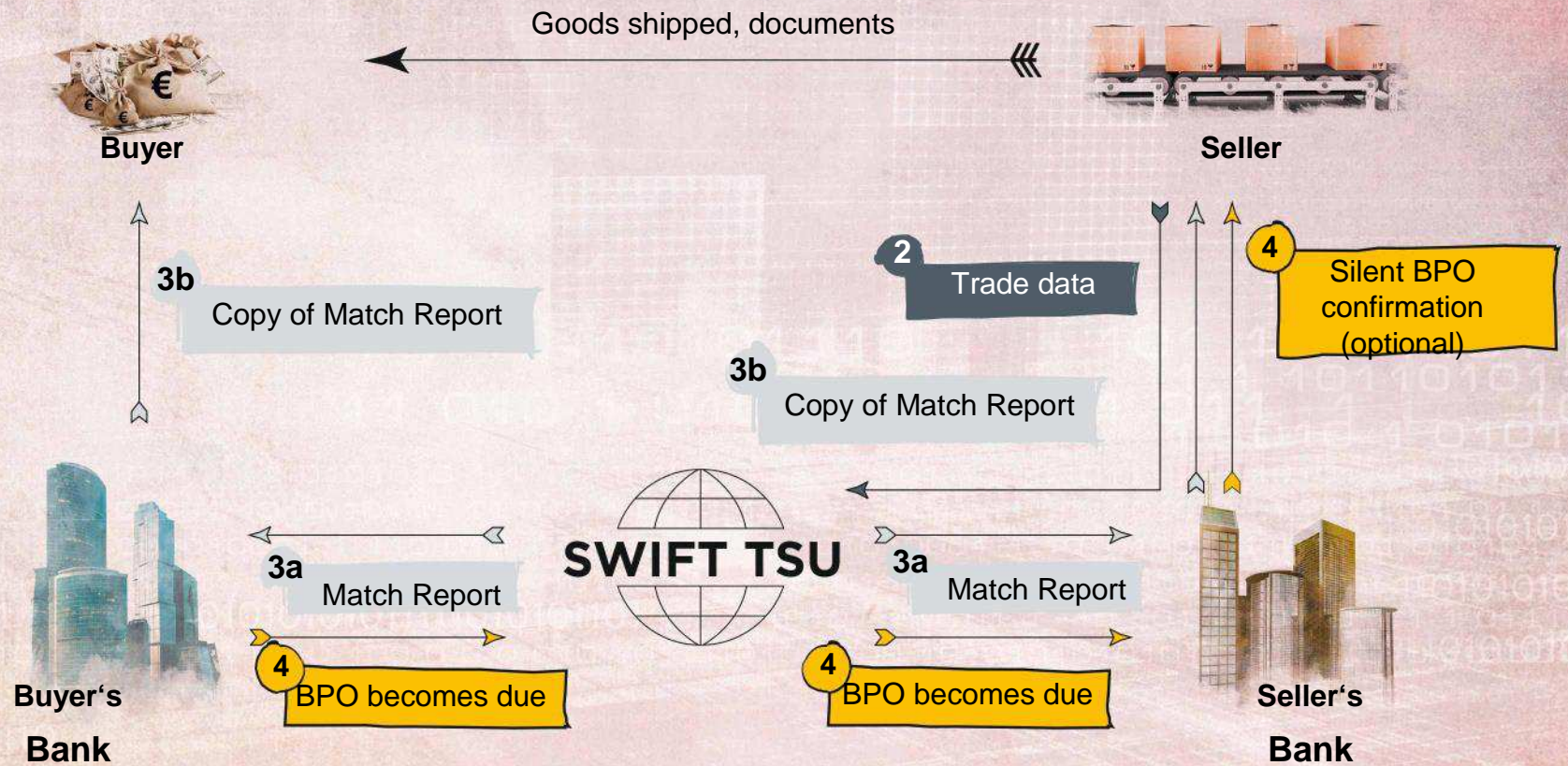


## Matching of baseline data



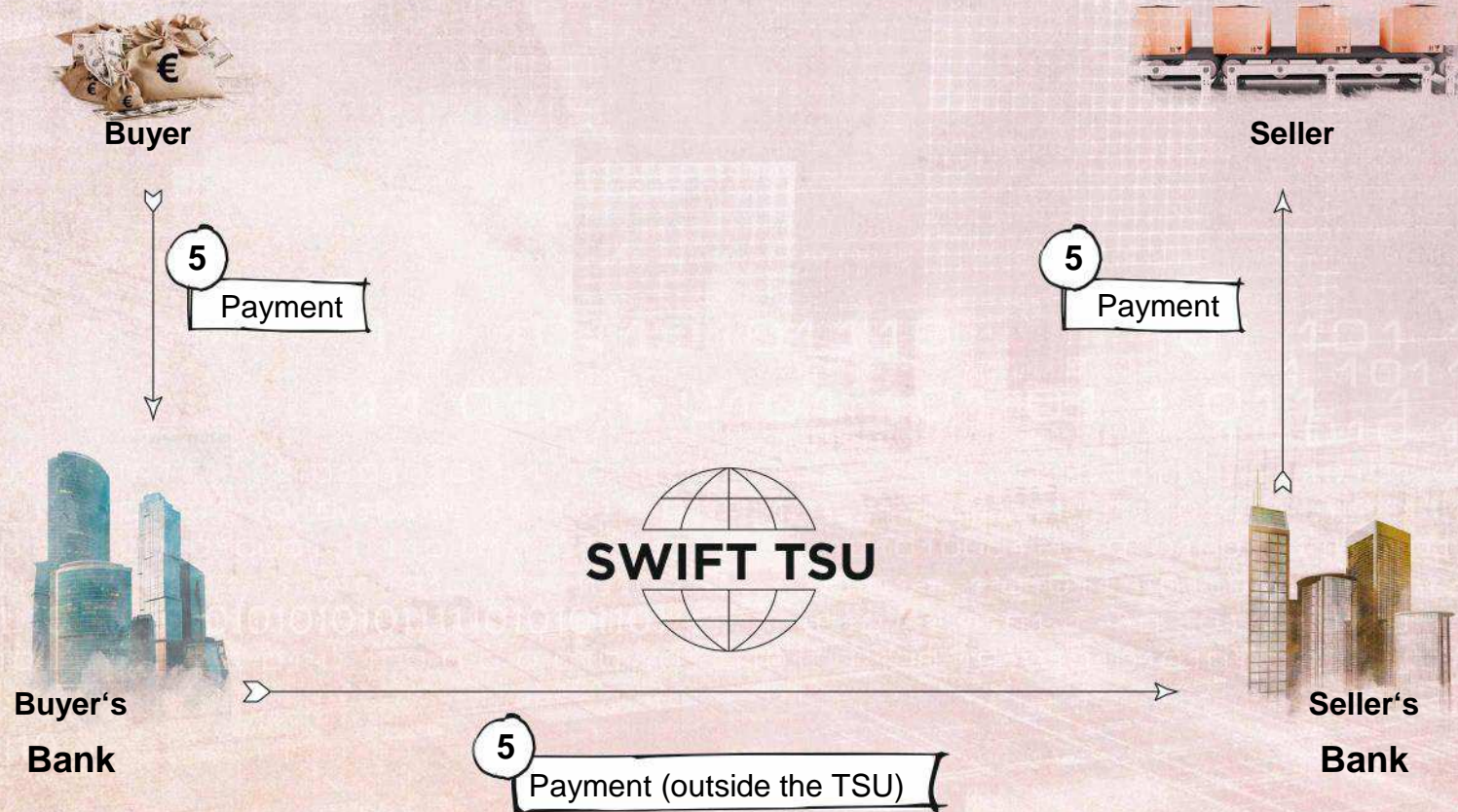


# Matching of trade data against the baseline





# The payment





## The trade data sets

### Minimum fields:

#### Baseline Data

Transaction reference  
 Purchase Order reference  
 Buyer name and country  
 Seller name and country  
 Goods and payment terms  
 BPO (yes/no)  
 BIC Code Buyer's Bank  
 BIC Code Seller's Bank  
 Amount and expiry of BPO

#### Commercial Data Set

Invoice number/date  
 Amount and currency  
 Payment terms  
 Quantity and pricing of goods  
 Bank details for settlement of payment

### Optional fields:

#### Transport Data Set

Consignor: name and country  
 Reference number  
 Date of issue  
 Proposed or actual shipment date  
 Port of loading and port of receipt

#### Insurance Data Set

Issuer of insurance policy: name and country  
 Issue date  
 Insured amount  
 Insured party

#### Certificate Data Set

Certificate type  
 Content of certificate  
 Issuer of certificate: name and country  
 Issue date



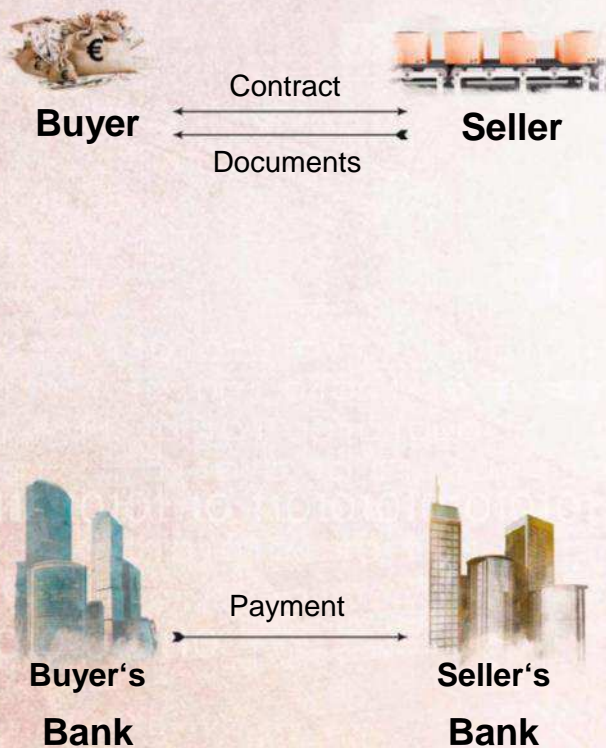
# The benefits



## Comparison of payment instruments (1/2)

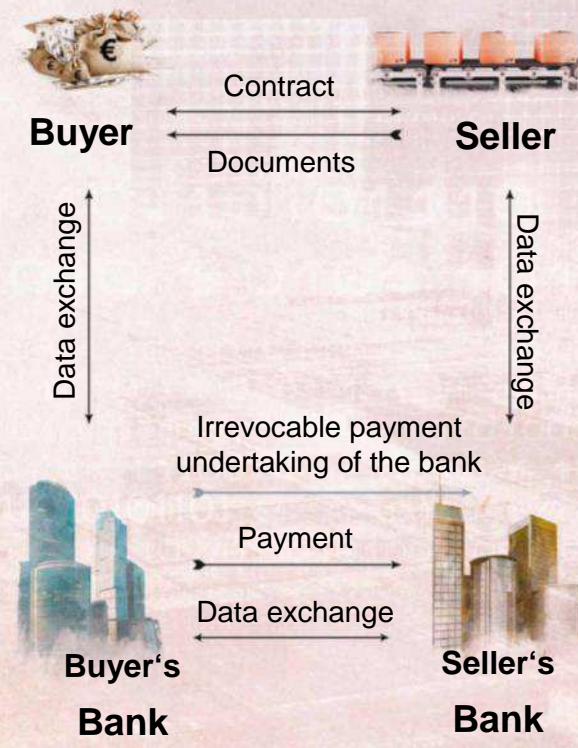
### Open Account

Bank services restricted to settlement of payment



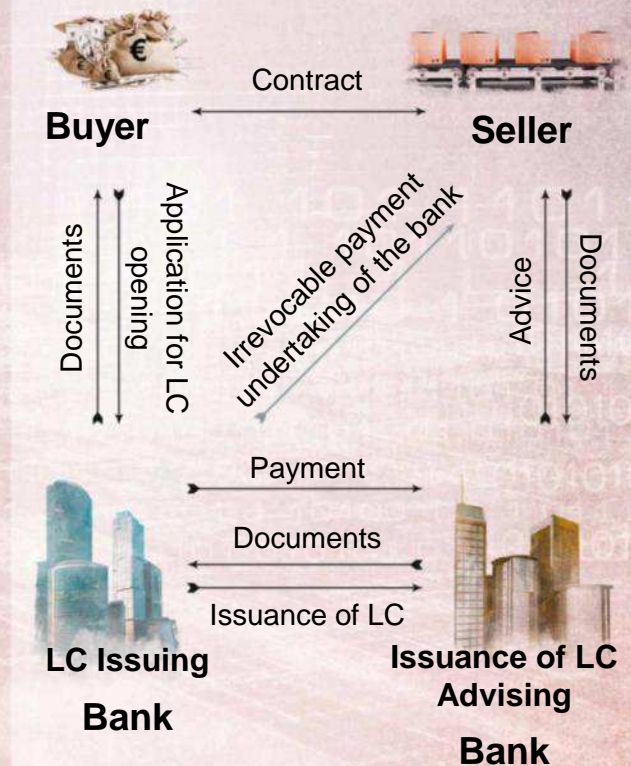
### Bank Payment Obligation

Bank services based on the electronic exchange of trade data



### Letter of Credit (LC)

Bank services based on paper documents





## Comparison of payment instruments (2/2)

### Open Account

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- Payment against presentation of an **invoice**
- **No assurance**
- **No payment undertaking**
- **No ICC rules**

### Bank Payment Obligation

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- **Payment against successful electronic data matching**
- **Irrevocable undertaking of a bank to the bank of the exporter** to effect payment upon fulfilment of terms specified for the commercial transaction (in the baseline)
- **Abstract undertaking**
- **ICC Uniform Rules for the Bank Payment Obligation (URBPO)**

### Letter of Credit (L/C)

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- Payment against presentation of **LC compliant documents**
- **Irrevocable undertaking of a bank to the exporter** to effect payment upon fulfilment of terms specified for the commercial transaction (in the LC)
- **Abstract undertaking**
- **ICC Uniform Customs and Practice for Documentary Credits (UCP 600)**



## Benefits compared to open account business



**Buyer**

- Fast and flexible processing
- Supporting and binding the supplier
- Negotiation of better prices
- Extension of payment terms



**Seller**

- Payment security
- Early payment
- Improvement of working capital
- Optimisation of processes
- Liquidity by possible financing of the BPO

The BPO assures payments of open account invoices and provides financing.



## Benefits compared to the letter of credit



- Cost savings  
(no checking of documents)
- Faster and more flexible processing
- Optimisation of working capital



- Cost savings  
(no checking of documents)
- Faster and more flexible processing
- Early payment (due to fast data match)
- Optimisation Working Capital

Compared to the LC, the BPO is only suitable for standardised trade business.  
The handling of electronic data instead of paper documents requires an established and trustful trade relationship.



# Highlights of the BPO = Working Capital Management

## Payment protection

- Risk mitigation by bank's payment undertaking...

## Confirmation of payment date

- Timely payment
- Effective cash management
- Reduced time exposure for debtor management

## Flexibility & efficiency

- Fast process through electronic data matching of trade data without presentation of trade documents
- Short-term amendment of baseline according to the underlying trade
- Cost reduction through efficient workflows
- Early payment

## Optional financing

- Liquidity & relief for balance sheet
- Win-win through BPO with extension of payment terms with simultaneous financing

DPO\* Buyer

DSO\*\* Seller

DSO\*\* Seller

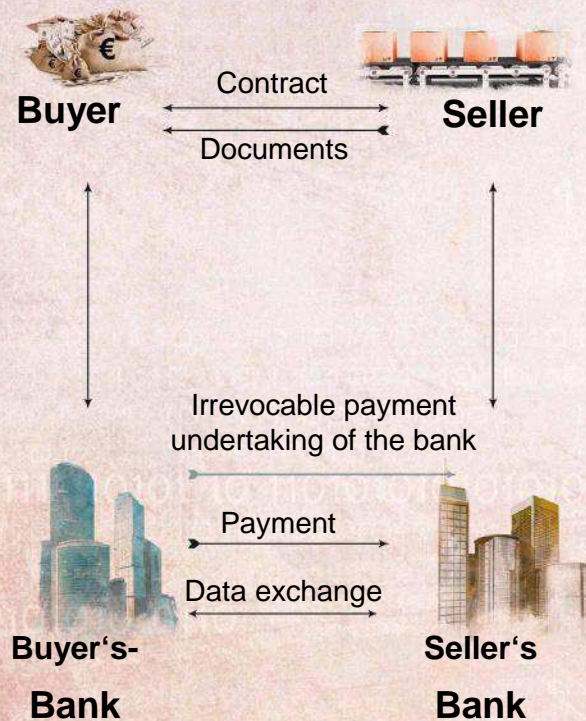
\* DPO Days Payable Outstanding

\*\* DSO Days Sales Outstanding

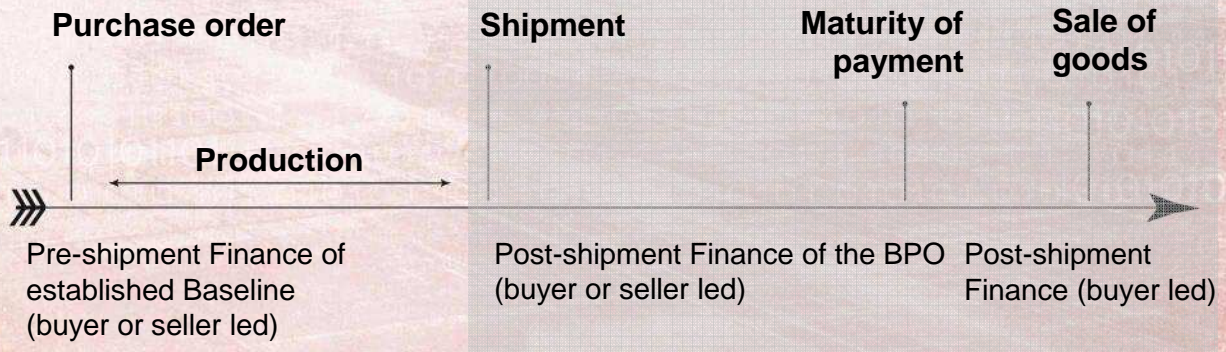


# Finance opportunities along the supply chain

The Bank Payment Obligation as enabling framework for finance along the supply chain



**“The Bank Payment Obligation is an ‘enabling framework’ for the provision of various forms of Supply Chain Finance and other services”.**  
(as per definition of the Global SCF Forum)



**Finance offer of Commerzbank**



# Preconditions & costs



## Requirements for settlement of a trade transaction with BPO

- Trustful relationship buyer – seller ensuring provision of correct trade data
- Agreement of BPO as payment term in trade contract
- The buyer obtains sufficient credit exposure
- The banks involved are BPO ready



## Costs & price negotiations

### Costs of the BPO

- **Costs for provision of credit line for insurance of a BPO transaction** (Buyer)
- **Risk costs for confirming a BPO** (Seller)
- **Low handling charges** (Buyer + Seller)
- **No charges for checking documents** (Buyer + Seller)

Compensation of costs by fast settlement and optimised processes.

### Possibilities of price negotiations

The buyer provides his credit line for the assurance of payment and for a possible finance in favour of the seller – same time the buyer has the possibility to negotiate the following issues of the trade contract:

**a) better pricing**

**a) Extension of payment terms**



# Market adoption



# The new instrument

## Banking groups live on BPO (06/2016)

### Based in Europe

-  **Commerzbank, Germany**
-  **BNP Paribas, France**
-  **UniCredit, Italy**
-  **Türkiye İş Bankası, Turkey**
-  **Türk Ekonomi Bankası, Turkey**
-  **NLB Prishtina, Slovenia**
-  **Standard Chartered, GB**

### Based in Australia

-  **ANZ, Australia**
-  **Westpac, Australia**

### Based in Asia

-  **Bank of Tokyo-Mitsubishi UFJ, Japan**
-  **Bank of China, China**
-  **KEB Korea Exchange Bank, Korea**
-  **SCB Siam Commercial Bank, Thailand**
-  **Bangkok Bank, Thailand**
-  **China Citic Bank, China**
-  **China Merchants Bank, China**
-  **Maybank, Malaysia**
-  **RHB, Malaysia**
-  **CIMB Bank, Malaysia**

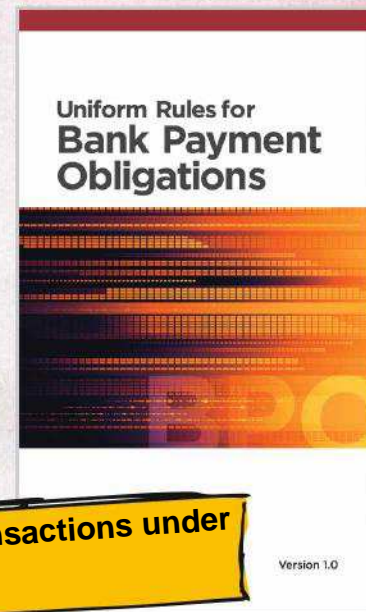


## Market adoption

### ICC Uniform Rules for BPOs (URBPO)

The International Chamber of Commerce (ICC) together with representatives from industrial enterprises, international banks and SWIFT has issued and adopted a rulebook for uniform market practices and an industry standard.

The Uniform Rules for Bank Payment Obligations (URBPO) came into force on 1 July 2013.



**Commerzbank processes BPO live transactions under the URBPO since October 2014.**



# Back up



## Bank Payment Obligation

The matching of electronic data on the SWIFT TSU and issuance of a BPO is similar to the processes of letters of credit. Please find enclosed a comparison of both trade finance instruments:

### BPO

### Letter of Credit (LC)

- **Higher risk mitigation** than open account transactions
- **But: Less risk mitigation compared to a letter of credit**
- Reason: The handling is merely based on electronic data. Documents are exchanged directly between buyer and seller.
- **Faster and more flexible processing.**

- **High risk mitigation due to presentation and checking of trade documents by the bank.** (limitation of e.g. quality risk, risk of non acceptance of goods and importer's willingness to pay or inability to pay.)
- **"Documents of title" certify the right of possession of the goods** (e.g. bill of lading, warehouse warrant) which is transferred to the importer only upon payment and handover of documents.
- **For new business relationships and/or lack of trust between trading partners** the letter of credit is still the most secure instrument in Trade Finance!

**Conclusion** – A shift from LC to the BPO requires

1. stable and trustful relationship between trading partner, i.e. long term and positive business relationship
2. awareness of less risk mitigation.



Medium risk mitigation



High risk mitigation



## Excerpt of the Uniform Rules (URBPO)

- The BPO is separate and independent from the underlying transaction.
- The issuance of a BPO constitutes a legally binding, valid and enforceable undertaking.
- Beneficiary under a BPO is always the Seller's bank.
- Obligor Bank may be the Buyer's Bank or any other bank.
- A BPO always relates to one specific transaction although one transaction can contain more than one BPO (one per Obligor Bank).
- The BPO automatically comes into force upon dispatch of a match report and/or acceptance of any data mismatch.
- The Obligor Bank is committed to make payment on due date to the Seller's bank.
- The BPO will expire when no successful match has been made until expiry date specified in the Baseline.



## New payment term in sales contracts

To ease the way for using the new payment term BPO in sales contracts, the ICC Commission for Commercial Law & Practice has extended the respective model contract.

### ICC International Sales Model Contract

A-7 Payment Conditions (Art. 5)

Irrevocable bank payment obligation (Art. 5.6)

Obligor Bank BIC:

Recipient Bank BIC:

Credit available:

Partial shipments:

Transshipment:

By payment at sight

Allowed

Allowed

By deferred payment at — days  Not allowed

Not allowed

Date on which the bank payment obligation must be notified to seller

(if different from Art. 5.3)

days before date of shipment  other:

### Article 5.5

If the parties have agreed on payment against the security of a BPO, then, unless otherwise agreed, the Buyer must arrange for the Seller to receive an assurance of payment in accordance with the agreed payment terms in the form of a BPO to be issued by a bank in favour of the Seller's Bank, subject to the UR BPO published by the International Chamber of Commerce, and to be notified at least 30 days before the agreed date of shipment or at least 30 days before the earliest date within the agreed shipment period. Unless otherwise agreed, the BPO shall be payable at sight and allow transshipments but no partial deliveries.



**THANK  
YOU**

**For your attention**



**COMMERZBANK**

Die Bank an Ihrer Seite



Inspiring Customers

Financing Trade

Moving Money

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