DC-PRO

LC Market Intelligence Survey

2003

International Chamber of Commerce

The world business organization

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1. Introduction

This report outlines the results of the DC-PRO Letter of Credit Market Intelligence Survey carried out in the first quarter of 2003.

1.1 Background

There is a wealth of anecdotal information about LC work in relation to the discrepancy rates experienced, size of departments, the use of technology, etc. However, there has been very little empirical research carried out on these matters.

In order to address this, the International Chamber of Commerce commissioned DC-PRO to survey its member-base and to compile a report to provide pertinent information on the structure and practice of the "modern" LC department and highlight areas of particular relevance to senior trade finance professionals.

1.2 Methodology

DC-PRO and the ICC developed a 30-item questionnaire to collect information from the DC-PRO member-base that represents almost 500 senior trade finance professionals across 70 countries.

The survey was conducted on-line and was available to participants from 05 February 2003 to 12 March 2003.

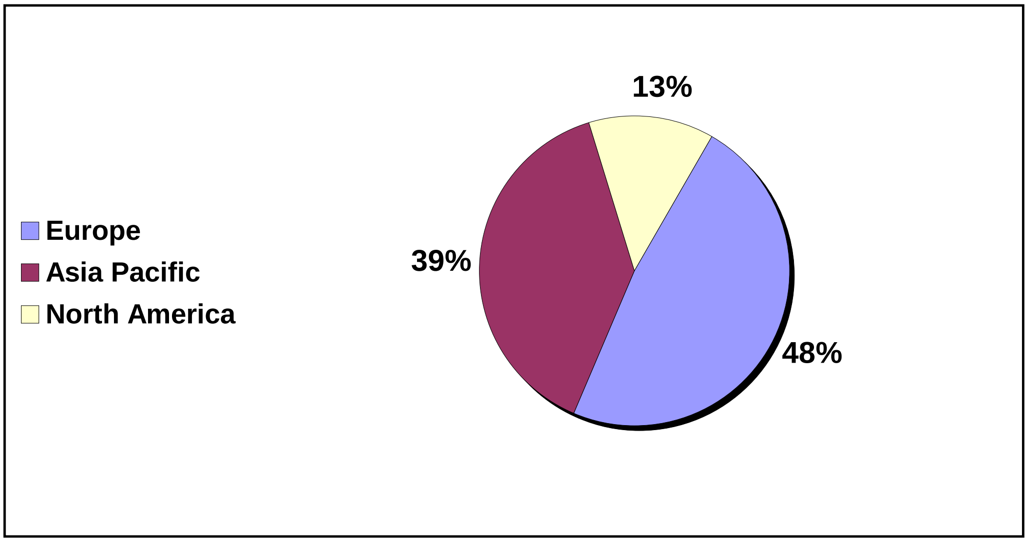
The broad goals of this survey were to obtain valid and reliable information from experienced trade finance professionals with “hands-on” knowledge of LC work in a modern banking environment.

Specifically, this survey's questions addressed the following topics:

-the structure and practice of the modern LC department
-the use of technology within LC departments
-education and information dissemination practices

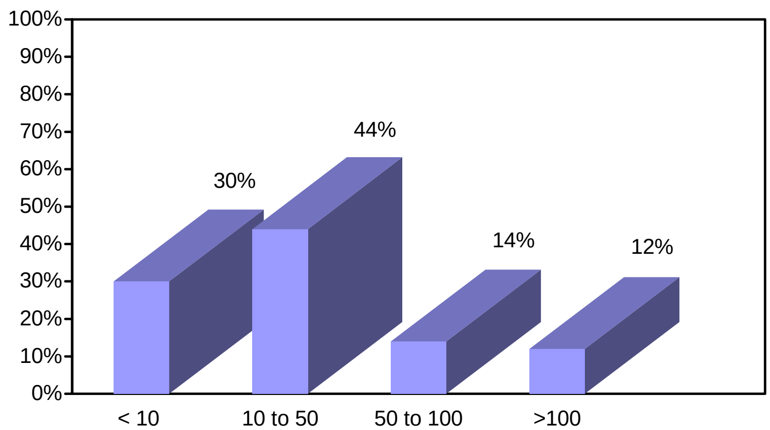
The survey received a 25% response rate. All respondents are guaranteed anonymity.

The representation by geographic region was as follows:
Europe – 48%
Asia Pacific (including Middle East) – 39%
North America – 13%



The profile of respondents varied greatly:

30% represented LC departments of 10 or less staff
44% represented LC departments of between 10 and 50 staff
14% represented LC departments of between 50 and 100 staff
12% represented LC departments of 100 or more staff



This report aims to represent the amalgamated feedback and opinions of this geographically and organisationally diverse section of the LC banking community.

We hope that the results and commentaries offer you real food for thought on the current position of the LC industry, as well as future trends.

1.3 Executive Summary

The LC Department

Overall, the level of employees working in LC Departments is decreasing; 51% of LC Departments have fewer employees than 5 years ago.

However, the monetary value of documents that are being processed by LC departments has increased in the same period. Almost 70% of LC departments process either the same or a higher value amount of both import and export LCs than 5 years ago.

Discrepancy rates have remained at a constant level but vary greatly from LC department to LC department. The highest discrepancy rate indicated for export LCs was 95% and the lowest was 10%. The highest discrepancy rate indicated for import LCs was 98% and the lowest was 20%.

Technology

The use of technology within LC departments is not as pervasive as anecdotal evidence may suggest.

67% of LC departments do not offer their customers an on-line method to apply for LCs.

85% of LC departments do not have an on-line B2B facility offering trade finance services and information to their customers.

None of the LC departments surveyed indicate that they have already processed an eUCP credit.

Education and Information

LC departments place a great emphasis on training staff and having the most up to date intelligence available to their staff.

91% of LC departments surveyed have a strategy in place for the training of their LC staff.

46% of the LC departments surveyed have at least one person with a CDCS designation.

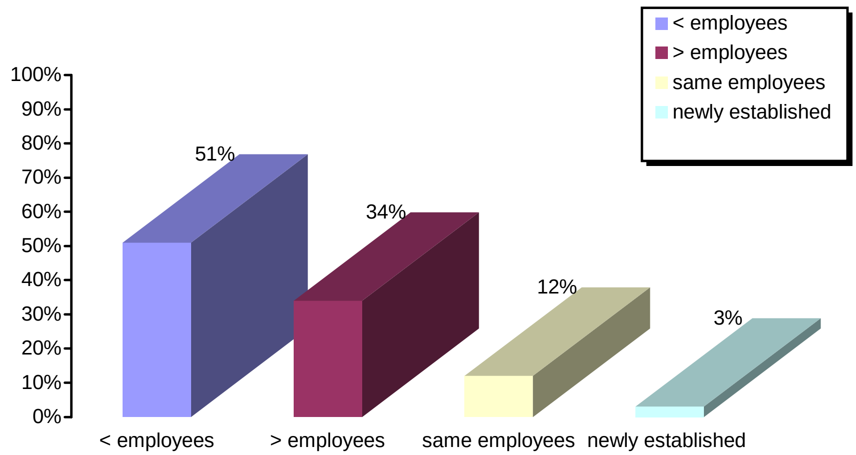
The most commonly attended trade finance seminars last year related to the subjects of eUCP and ISBP.

54% of respondents believe that ISBP will lead to a significant reduction in the number of documents refused for discrepancies on first presentation under LCs.

2. The LC Department

2.1 Employee Levels

51% of LC Departments have fewer employees than 5 years ago.



There were no significant geographical trends identified among the responses.

The main reasons given for decreases in the level of employees are:

- Change in bank strategy away from international trade finance
- Reduction in business volume
- Increased efficiency of employees due to centralisation
- Increased use of part-time workers

The main reasons given for increases in the level of employees are:

- Centralisation
- Relocation of operations
- Increase in business volume

2.2 Staff Turnover

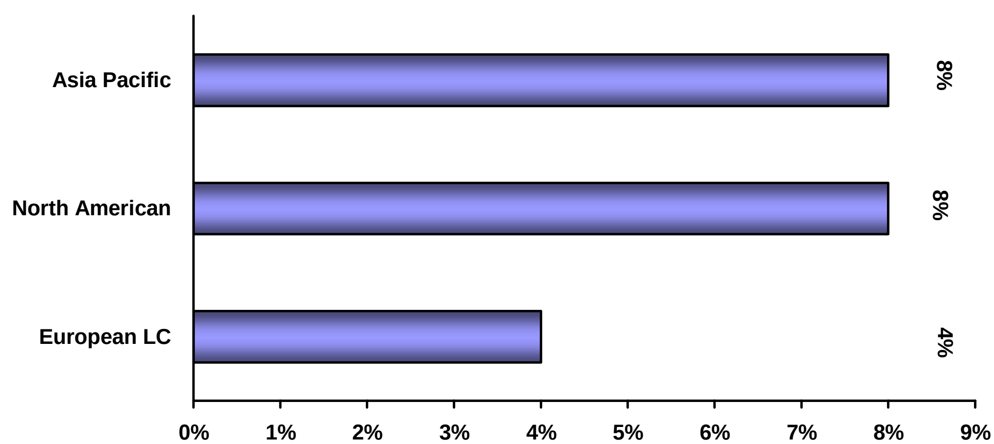
The average turnover of staff within LC departments is 6% per annum - although figures of anywhere between 0 and 25% were recorded.

The main reasons indicated for staff turnover were:

52% - leaving for another bank/company
31% - leaving for another department within the bank
17% - retirement

Additional reasons provided were:
- pregnancy leave
- termination of contract

The turnover levels recorded for North American and Asia Pacific LC departments were twice the figure recorded for their European counterparts.

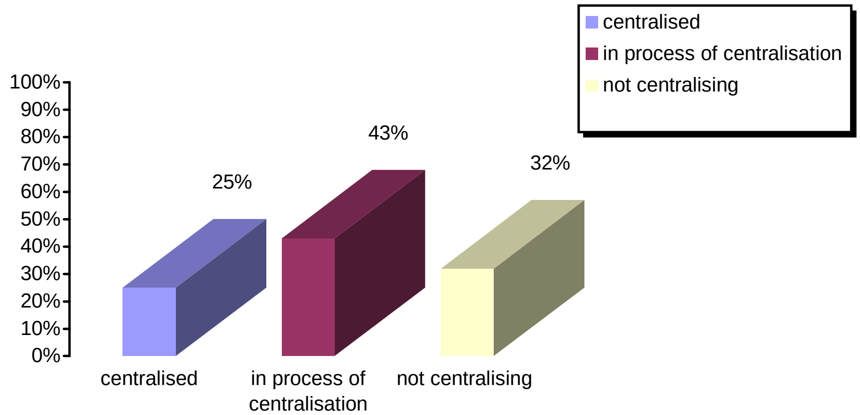


30% of European banks indicated a 0% turnover per annum.
As one respondent commented:

> *"Nobody leaves!!! We're the same that were here 10 years ago, only one newcomer 8 years ago, and we all plan to be around for many years."*

2.3 Centralisation

68% of respondents indicate that their LC operations are centralised or are in the process of being centralised.



There were no significant geographical trends identified among the responses.

The main reasons given for centralisation are:

- Optimum use of expertise and resources
- Creation of a focussed working environment

Centralisation was cited as a reason for both the increase in the level of employees in some LC departments and the decrease in the level of employees in others.

Because the departments involved in centralisation constitute the majority of the surveyed group, it is not possible to determine the overall impact of centralisation on the trends of employee levels.

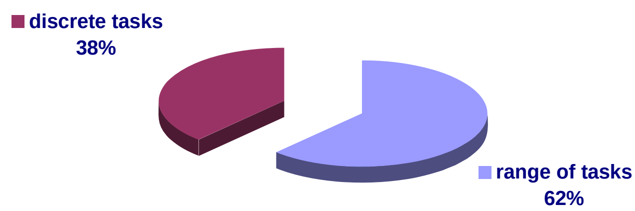
"As we have centralised our operations, due to increased efficiency the employee level has decreased, although the transaction volume has increased."

"We are in the initial stages of centralisation, and are relocating some of our branch staff to head office. The number of staff here is increasing."

"We have hundreds of branches dealing with L/C business. Centralisation has always been a tough project for us, though it is our future target."

2.4 Multi-tasking

The majority of LC departments require their staff to perform a range of tasks within the LC process.



There were no significant geographical trends identified among the responses.

The above figures are presented as absolute, however, due to the different ways that work can be segmented within LC departments (by transaction value and type, by customer, by geographical area, etc.), it is often the case that there is a combination of these work practices.

It is evident, however, that the majority of LC departments place a real emphasis on staff learning a broad base of skills. In many of the LC departments that require their staff perform discrete tasks, the staff are cross-trained or work on a rotational system performing different (discrete) tasks within the LC process at different times.

"We're quite sectionalised. Certain sections perform "discrete tasks" while other sections perform a "range of tasks", depending on the volume of the particular tasks."

"Discrete, but many are cross trained to fill in when staff are absent."

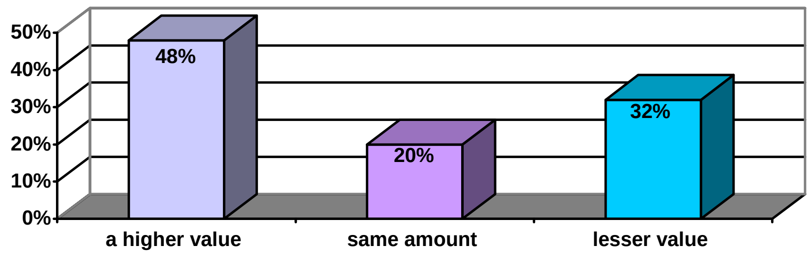
"Our staff follow a product path which sees each one move gradually across all trade products. Whilst they may perform discrete tasks, these change over months as they gain experience."

"Everybody does everything."

2.5 Document Processing

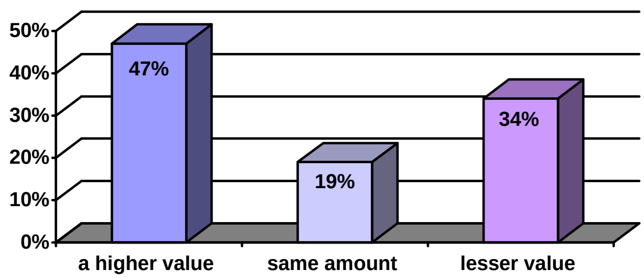
Almost 70% of LC departments process either the same or a higher value amount of both import and export LCs than 5 years ago.

Export LCs



48% process a higher value amount each week than 5 years ago
20% process the same amount each week as 5 years ago
33% process a lesser value amount each week than 5 years ago

Import LCs



47% process a higher value amount each week than 5 years ago
19% process the same amount each week as 5 years ago
34% process a lesser value amount each week than 5 years ago

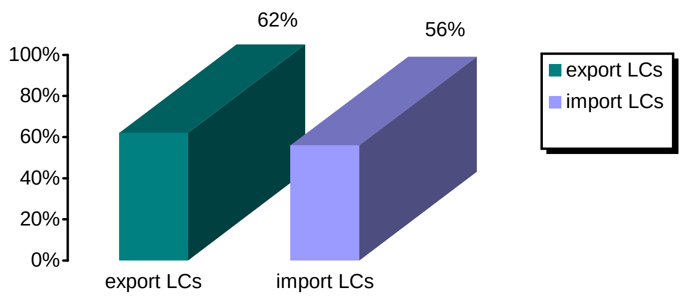
"Both transactional count and value amount of our LCs dropped dramatically after 9/11."

"Total volume has been increasing but the percentage of LCs are decreasing compared with other trade products."

"Owing to bank strategy, we are now focusing on bigger clients that can meet our minimum revenue requirement."

2.6 Average Discrepancy Rates

Discrepancy rates vary greatly from LC department to LC department for both import and export LCs. The highest discrepancy rate indicated for export LCs was 95% and the lowest was 10%. The highest discrepancy rate indicated for import LCs was 98% and the lowest was 20%.



The average discrepancy rate for first time presentations under export LCs is 62%. The equivalent figure for import LCs is 56%.

Surprisingly, 20% of LC departments indicated higher discrepancy rates for import LCs than export LCs.

62% of LC departments indicate that discrepancy rates have remained constant over the past 5 years; 20% indicate that they have fallen and 18% that they have risen.

“Most of the discrepancies can be kept 'internal'. Maybe 15% of the documents are sent for approval to opening bank.”

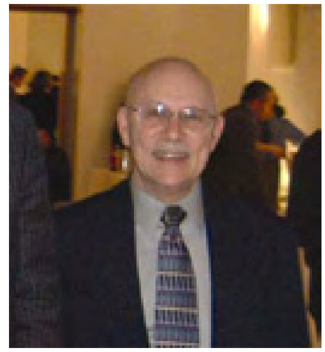
“As we have centralised our operations in a national site, the expertise and non-customer contact environment has allowed a more focussed approach to document checking. This is evidenced by an 80% reduction in losses attributable to incorrect document checking.”

“There is an increasing demand for pre-checks of documents and even assistance in the preparation of the documents, which, of course, reduce the percentage of discrepant documents.”

“Due to many international seminars by ICC and in-house courses, checkers now understand much better what "discrepancies" are. Previously, even obvious minor spelling errors were treated as huge offences.”

Commentary by Vin Maulella

Vin Maulella is the principal of an international banking and trade consultancy. He has 30 years experience in banking, specialising in operations, risk, product and project management of businesses dedicated to facilitating and financing international trade.



Having recently retired from The Chase Manhattan Bank, he serves the market by working independently and through a number of organisations active in a policy role for letters of credit and related trade matters. Vin serves as Associate Director of the Institute for International Banking Law & Practice, as International Banking Advisor for the United States Council for International Business, and as a Contributing Editor for Documentary Credit World.

Vin is a DOCDEX Expert, ICC Centre for Expertise and an Accredited Arbitrator, International Center for Letter of Credit Arbitration and has served as an expert witness in civil and criminal litigation. Vin is also on the Advisory Board of several e-initiative companies.

When I first learned of the DC-PRO Letter of Credit Market Intelligence Survey, I was delighted that someone was undertaking a credible and needed research effort to identify current trends in letter of credit processing and the LC business. That delight was quickly followed by disappointment as I realised that having retired from banking after a 30-year career in letter of credit and international banking, I could not personally participate in the Survey.

That disappointment did not dampen my interest in the results and so I was thrilled when DC-PRO asked me to comment on the Survey results. I must thank DC-PRO not only for the resource they offer the market on a day to day basis with Focus and Mentor but also for their vision in managing this Survey. I hope that my observations and insights will assist those who participated in the Survey to apply these market results to their own specific operation. As I believe that further research in this area would be helpful, I hope that those who did not participate in this Survey will see the benefit of contributing to any additional investigation into the dynamics of our letter of credit business.

The LC Department

Employee Levels

Assuming employee levels are proportionate to volume and productivity, only 12% of the respondents report the same level of employees as 5 years ago. So for that 12%, and you know who you are, either your volume and productivity has not changed or you have managed to absorb increased business without an increase in staff. Of course, that could mean that you were overstaffed 5 years ago, but after 30 years in this business I doubt that's the case.

Productivity improvement could be attributed to a number of reasons, among them:

automation, improved work flows or, and I am intentionally not using the infamous letter of credit virgule, personal productivity because the staff is more experienced, (as confirmed by reported low turnover), etc. Note that 50% more banks reported a decrease in staff than those reporting an increase. Comparing or rather pairing that figure to the respondent comments is most helpful. Clearly centralisation and relocation of operations seem to be the primary drivers impacting number of staff. By consolidating operations, managers can better utilise their resources. In consolidation, they typically have the depth and experience to cross train which then allows coverage when volumes shift or employees are absent. They also have the flexibility to organise by multitasking or workstation type processing as opposed to assembly line type processing. The use of temporary or part-time workers further allows LC managers to respond to unplanned or seasonal fluctuations in business. This flexibility impacts productivity as well as customer service and also, how the bank markets its LC service.

Some comments courageously cited reduction in business and change in bank strategy away from trade finance as reasons for reductions in staff. More widespread and better cost accounting has found its way to LC. Gross revenues are not driving bank management today. In many markets, bank operations are being managed as businesses and are being held accountable for returns on expense, on risk based capital, and other measures of financial and operational efficiency.

Basel II has or will certainly force banks to treat LC as a credit product and that will further impact the cost of LC to the bank and subsequently to the customer. Product profitability, customer profitability, relationship management, and internal competition for budget dollars are all challenging the traditional bottom line of LC. Some banks manage LC as a cost center, others as a utility and some as a profit center. It is not just a matter of whether LC makes money, but rather how much does LC contribute in comparison to other bank businesses?

For over a decade, we have seen how bank operations have moved to lower cost environments to benefit from lower occupancy, salary and cost of support services. Technology and telecommunication capabilities and efficiencies have made much of this possible. Where is LC in the bank organisation? A standalone department or a business combined with other businesses e.g., treasury services/cash management to leverage the synergies of these two, or e-commerce, a foretelling of that bank's vision.

Staff Turnover

Given the realities stated above, it may be surprising that LC turnover is relatively low. Surely, LC staff can see the handwriting on the wall: reductions, relocation, reengineering workflows, and revised business plans, i.e., revised emphasis on LC. The answer to that may be as simple as: there's no other place to go. This may also reflect the age of the LC staff and their proximity to retirement.

While I doubt that anyone starting in the LC department today has any expectation of retiring from the LC department, clearly, those now in the LC department who have invested ten years or more in this field, do hope to retire from the LC department, hopefully at the usual retirement age, but they will take early retirement. I can recall that in my first decade in LC, the majority of new hires were at entry level LC positions; in my last decade in LC, there were no entry level hires in LC.

Centralisation

Certain numbers are interesting and may speak for themselves. 32% of the respondents indicated that they were not centralising operations; recall that 34% of respondents to question 3 answered that they have more employees than 5 years ago. Makes you wonder, doesn't it? Is there any connection, a direct relationship to these numbers or are you in denial? But, given today's technology, centralisation does not need to mean "everybody in one place." Hub and spoke type processing, familiar to those who must fly to "hub cities" to get connecting flights, has a parallel in LC in that those banks whose customers, correspondents or commercial companies, send applications, credits, documents or other correspondence, to a mail box, fax number or internet address many not have any idea where that "address" is physically located and may not care as long as the work is processed efficiently and cost effectively. In some banks even customer service is handled remotely, in others, customer service is the spoke, providing local, face to face communication with the customer.

Multitasking

Multitasking is not just a phenomenon of small operation v. big operation although that certainly is confirmed by the reported 92% multitasking in departments of 10 or less employees. Clearly in a small department, "everybody has to do everything." However, consider that centralisation places all your experience and expertise in one place. How best to manage that resource and keep staff motivated and customers happy, is a challenge.

Multitasking in a way that makes select staff, individually or in a team concept, responsible for the total processing, i.e., issuance, amendment, document examination, customer service, etc. for one or more customers, has proven to be a possible alternative and a great marketing tool, in that that customer has their own LC department. In addition, multitasking has its productivity benefit: fewer handoffs, less redundancy, greater accountability, and better risk management. There is a trade-off; someone who can do everything is valuable to the organization, is generally paid more, and if lost is more difficult to replace.

Document Processing

The relationship, i.e., the percentages of export and import value/volume experience parallel each other and would seem to indicate that not much has changed over the past five years. However, the respondent comments seem to tell a different story. The world economy seems to have slowed if not stalled since 9/11 and that is reflected in every business including LC. I for one am intrigued by the comment "Total volume has been increasing but the percentage of LC is decreasing compared with other trade products." In anecdotal data that I have heard, the percentage of world trade settled by LC has decreased from 15-17% to 12-15% over the past 10 years. It certainly would be interesting to consider the reasons for this change.

The technology section replies of this Survey and seminars that I have conducted, lead me to conclude that internet solutions have as of today had little or no impact on

LC business. Various global economic crises have not surprisingly taken their toll on LC. I have heard any number of exporters complain that when they needed confirmed LCs they were not available at any price. Select data reported at a recent FCIB (Finance, Credit and International Business, www.fcibglobal.com) trade conference indicate that business formerly done by LC is now conducted on open account or cash in advance. Either the exporter is extending buyer credit, often in exchange for an interest in buyer assets, or if the buyer must place cash collateral to obtain the credit and their bank must post cash collateral to obtain confirmation, the buyer might as well pay in advance, hopefully secure a discount, and if warranted can obtain a performance standby from the exporter.

Average Discrepancy Rates

The data reported here should not surprise any experienced LC user. Put another way, 5% of the exporters get it right 95% of the time and 95% of the exporters get it wrong 95% of the time. Discrepancy percentages are not much different today than 30 years ago. Given that the most common discrepancies are still credit overdrawn, credit expired, late shipment and late presentation, it's no wonder that in those 30 years three UCP revisions, (290, 400 and 500) have done little to improve the compliance percentage.

Having said that, consider that discrepancy percentage and payment percentage are two very different measurements. Notwithstanding the 50-60 percent discrepancy rate, at the end of the day/week/month 99% of all documents presented under LCs, absent fraud, are paid. Whether ISBP will have a positive impact on compliance remains to be seen. The cynic in me asks "If exporters have not taken the time to read the 49 Articles of UCP500, what will make them read the 200 paragraphs of ISBP?"

Where does LC go from here?

About ten years ago, I began to speak on the role of LC in international trade finance and the role of banks in LC and international trade finance. Given advancements in technology, entry of new intermediaries, some of those in their infancy 10 years ago and new entrants since then, I'm not far from where I started which is interesting as LC has not moved very far from where it was 10 years ago.

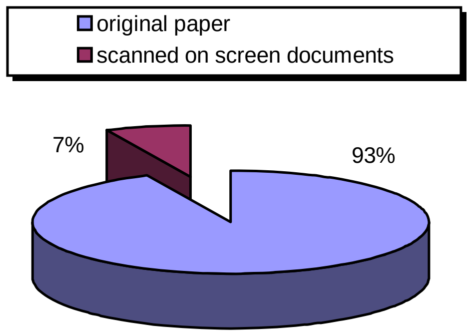
There are those users who swear by LC and those who swear at it! Who will save trade from LC? Whether TradeCard, Exchange Collect from UPS, S1's Trade Finance, bolero.net, @Global Trade, SWIFT or some other solution, real or virtual will replace or repair LC remains to be seen. Is LC becoming or has it already become a commodity? How can you differentiate your LC from your competitors' LC? Can your bank afford the investment in technology to keep up with the competition? Do your customers want technology and if so, are those demanding technology willing to pay for it?

Vincent M. Maulella is Principal of Vincent M. Maulella, International Trade Specialist. Vin 's e mail address is maulella@aol.com

3. Technology

3.1 Scanned or Original Documents

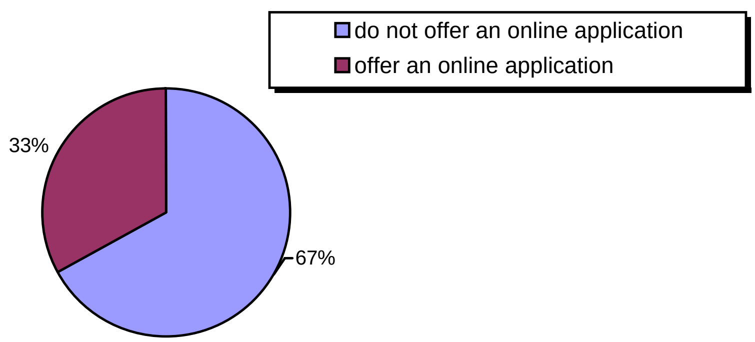
The majority of LC departments examine traditional paper documents.



93% of LC departments examine original paper documents
7% of LC departments examine scanned on screen documents

3.2 On-line LC Application

67% of LC departments do not offer their customers an on-line method to apply for LCs.



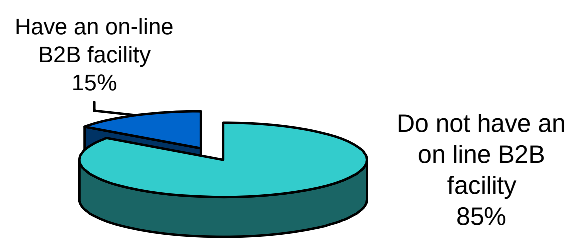
67% of LC departments do not offer an online application for LCs
33% of LC departments offer an online application for LCs

Of the departments that offer an online application, the percentage of their customers that use the facility ranges between 5% and 90%.

The average percentage of customers that use this online facility when it is available is 34%.

3.3 B2B Facility

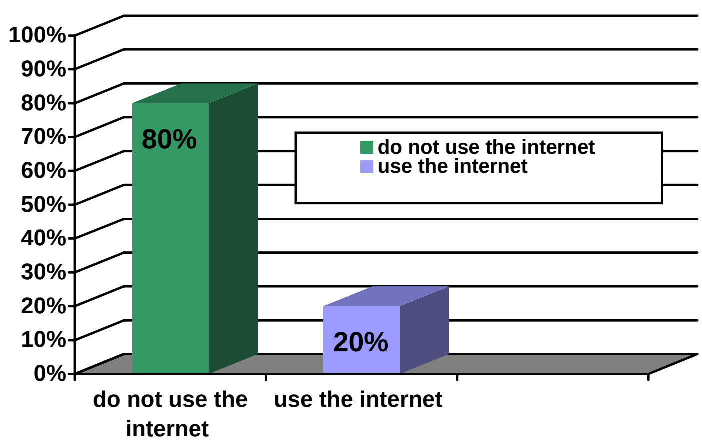
85% of LC departments do not have an on-line B2B facility offering trade finance services and information to their customers.



85% of LC departments do not have an on line B2B facility
15% of LC departments have an on-line B2B facility

3.4 LC Management Process

Only 20% of LC departments use the internet as part of their LC management process.

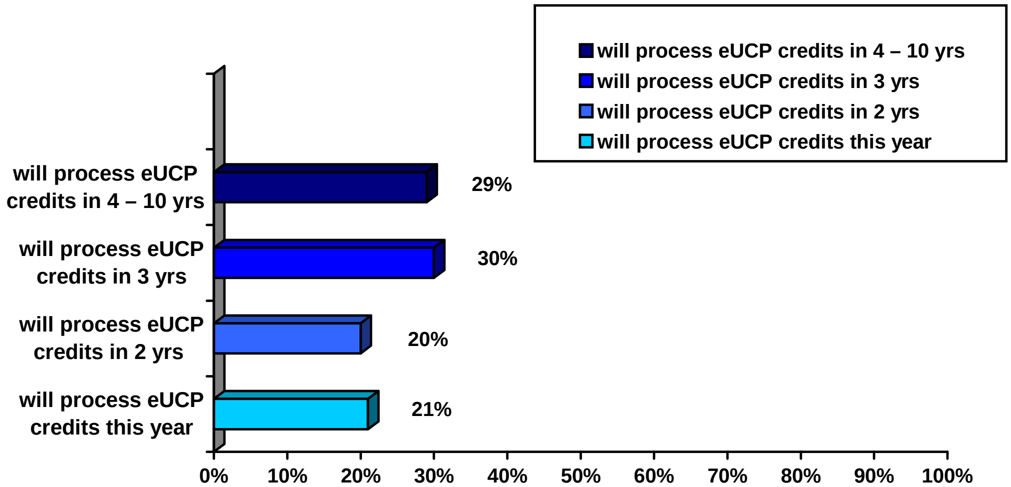


80% do not use the internet as part of their LC Management process
20% use the internet as part of their LC Management process

3.5 eUCP

21% of LC departments indicate that they intend to process eUCP credits within the next year. Although none of the LC departments surveyed has yet processed an eUCP credit.

There is a wide divergence in the expected timing of the introduction of eUCP credits.



21% intend to process eUCP credits this year
20% believe their bank will process eUCP credits in 2 yrs
30% believe their bank will process eUCP credits in 3 yrs
29% believe their bank will process eUCP credits in 4 – 10 yrs

"We observe the market and development on the market before we start to invest in further technical facilities to be able to process eUCP credits."

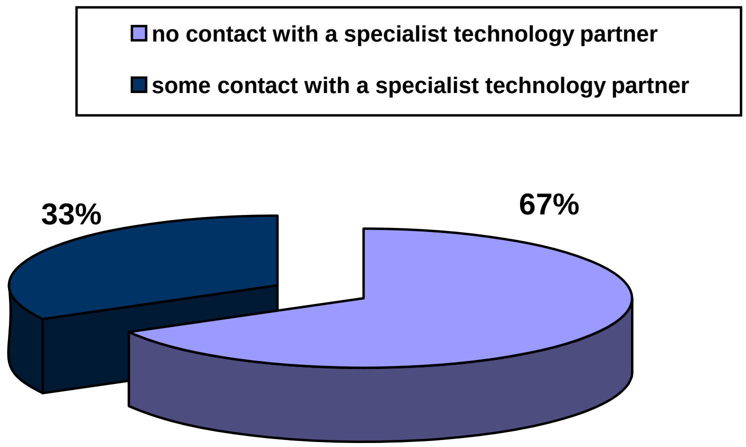
"We will look at the processing of eUCP credits on a case by case basis, depending on how this product will be "accepted"."

"Do not believe that electronic documentation will become mainstream for many years to come."

"The market still does not seem ready."

3.6 Technology Partner (Bolero, CCEWeb…)

33% of LC departments have had some level of contact with a technology partner in relation to developing on-line LC services.



67% have had no contact with a specialist technology partner
33% have had some contact with a specialist technology partner

Commentary by Kim Christensen

Kim Christensen is Product Consultant & Technical Advisor at Trade Finance in Nordea - the largest financial services group in the Nordic region. With approximately EUR 260 billion in total assets, Nordea is a world-leading Internet banking and e-commerce operation with 3.4 million customers.

Kim holds seminars and presentations on various subjects within international trade on behalf of Nordea. He contributes articles to international magazines – he is contributing editor of L/C Monitor, a bi-monthly print and on-line legal financial journal covering the use of payment instruments in international trade. He was one of the originators to Trade Finance Net Services - a two-way, web-based customer system, providing corporate customers in Nordea with a string of advantages such as swifter handling and enhanced overview of trade finance transactions.

Introduction

In the last couple of years there have been dozens of seminars, hundreds of articles, and countless number of workshops and meetings with one common goal: how to transform traditional paper documents into some electronic format.

It is clear that the letter of credit industry must escape from the confines that paper based trade imposes. However, it is very important that this should not be viewed as a "giant step". It is my belief that the move from paper documents to an electronic format is simply the "next step" in the evolution of the letter of credit as a financial instrument and must be viewed as such.

Let me put this in perspective - the letter of credit instrument started to take form in the late 18th Century. In those days there was no "e-mail", no "Straight Through Processing" and no "eCommerce". Everything was done manually, and everything was paper based. I bet that if you travelled back in time and told bankers and traders of the time how trade is done today, they would not believe you!

It is often overlooked, but technology plays an integral part within the letter of credit process today. Indeed, you would not have to travel back to the 18th Century for proof of this – just ask one of your colleagues that issued letters of credit 20 years ago and let them tell you the difference.

This letter of credit Market Intelligence Survey by DC-PRO, can in my view help to regain focus on the use of technology, as it puts a lot of facts on the table – and adds figures to some of the ghosts that exist today.

One could argue, that it is pointless to discuss "technology" in isolation, as technology is merely a tool to facilitate business. However, I realize that we have to discuss technology, as technology both supports and inspires business.

The reason that I say this is that I was wondering why "scanned documents" were included in the technology section of the survey. There may be any number of reasons to use a certain technology, for a certain task, but I am sure that scanning is used only out of necessity i.e. if the operational site is different to the site of receipt of the documents. Based on the survey results it seems clear that banks still examine documents in physical form (93%). The fact that 68% of LC departments are either centralised or in the process of being centralised indicates that it is more a local centralisation, rather than a global one.

On-Line LC Application & B2B Facility & LC Management Process

As mentioned, there is a huge difference between Trade Finance departments today and those of 20 years ago. One aspect of this is the use of the on-line LC application. My guess is that 20 years ago there were none. According to this survey, today 33% of the LC departments offer an on-line application service to their customers.
There is, of course, a huge difference between the systems on the market today, and this is reflected in the usage rates recorded: between 5% and 90%.

I know of on-line LC applications launched as far back as 1986. In my experience it is not that hard (or expensive) to establish such a system – and it is indeed a powerful sales and marketing tool. So, in 2003, where (almost) everything is possible electronically, this number is shockingly low.

The relatively low number on the On-Line LC application is in my view a threat towards an electronic future. Electronic development has always – and will continue to happen in small steps. Leap-frogging sometimes is possible, but even a frog has its limitations.

As I have already said, there is no doubt in my mind that the next important task for the LC industry is to transform paper based documents into some electronic format. However, if the next step for your bank is to develop/utilise an on-line LC application then you face a big challenge to keep up with the pace of a changing industry.

The 15% that have an on-line B2B facility, and the 20% that use the internet in their LC management process is a logical (and actually a bit high) figure.

eUCP and Technology Partner

The eUCP has been in force since April 1st 2002 – a little over one year. This survey indicates that not one eUCP credit has been issued so far by the respondents. Considering all of the seminars, articles and books written on the subject this is a bit shocking. It is not very surprising but it is shocking.

My view is that the future of the eUCP lies solely in the hands of the banks. If banks truly believe in eUCP and electronic presentations under LCs then it can happen, if not …

There are two points that I wish to highlight from this section:
21% of the LC departments intend to issue eUCP credits this year. I choose to interpret that the positive way: that 21% want this to happen – and happen fast (one year is fast).

The other side of the coin is the comments relating to this section. All of them indicate a “wait-and-see attitude”. In my view this is very wrong. Don’t wait and see when the market is ready. Help the market get ready! Do it in small steps, do it in big. But do it!

In a direct line from that is whether or not the LC departments have “some level of contact” with a technology partner: it seems that 33% have. To some extent, I am a bit surprised by this figure. It sounds quite high to me.

However, some banks invest money in many projects: if one of these initiatives really moves, they want to be on it! This approach of course indicates the level of commitment involved: spectators do not add much to the party. And once again, these systems will only fly, if the parties are really committed.

Conclusion

My conclusion is that the result of this survey fully underlines the impression I have that banks (and the market) are confused when it comes to the use and development of technology within the LC area. There seems to be a shortage of dedicated resources and money. At the same time, many of the initiatives and developments taking place seem unnecessarily complex. Technology is the future but where to begin, where to aim and what to do – these are the core questions.

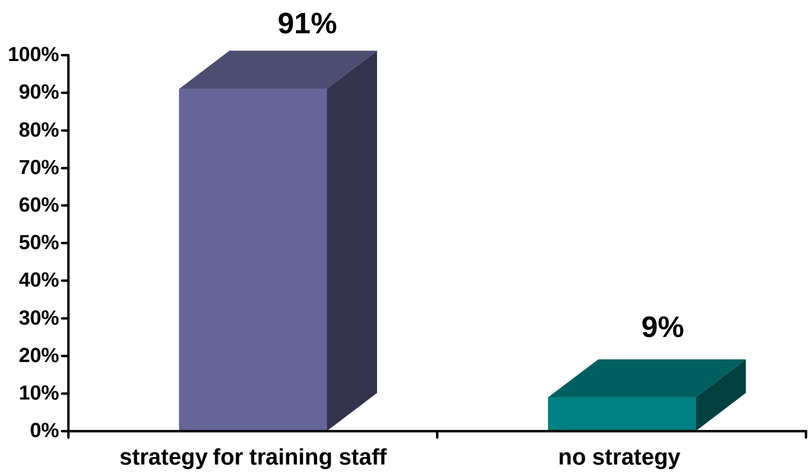
My advice: start small – and learn from that experience.

Kim Christensen is Product Consultant and Technical Advisor at Nordea Trade Finance. Kim 's e-mail address is: kim.christensen@nordea.com

4. Education and Information

4.1 Training Plan

91% of LC departments surveyed have a strategy in place for the training of their LC staff.



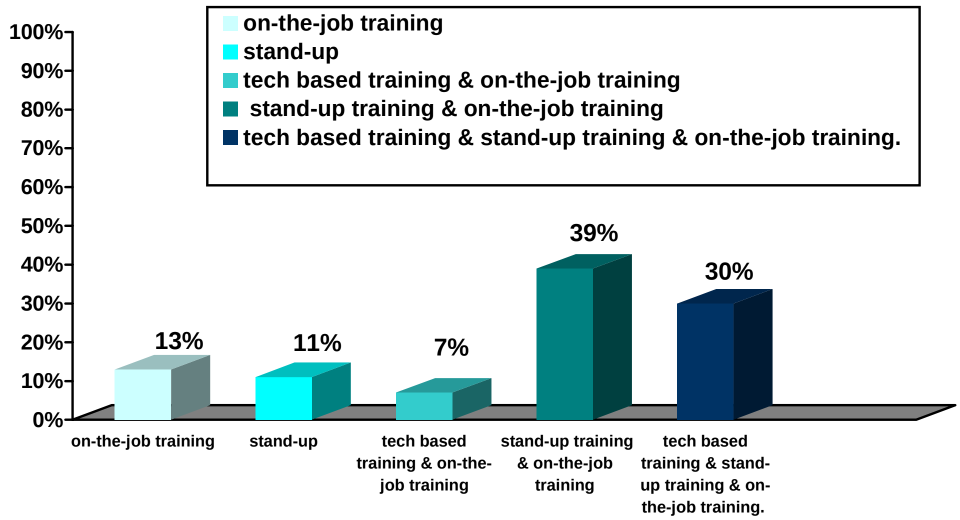
91% of LC Departments indicate that they have a strategic plan for training staff

9% of LC Departments indicate that they have no strategic plan for training staff

> *"We take non-experienced staff and progress them through an infrastructure of training and experience over a 3 to 5 year period. This starts from import/export collections then import/exports credits."*

4.2 Training Methods

The mix of training methods employed varies greatly from LC department to LC department.



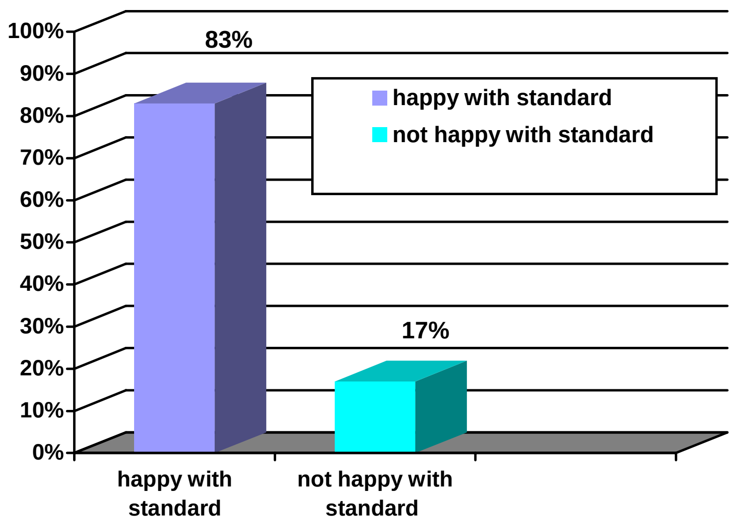
39% employ a combination of stand-up training and on-the-job training.
30% employ a combination of technology based training, stand-up training (internal and external experts) and on-the-job training.
13% employ on-the-job training only
11% employ stand-up training only.
7% employ a combination of technology based training and on-the-job training

29% of LC departments indicate that it is their policy to hire experienced staff only.

4.3 CDCS

The CDCS has been established as a benchmark for LC staff. 46% of LC Departments have at least one person with a CDCS designation.

Of the LC Departments with at least one CDCS certified employee:



83% are happy with the standard of the CDCS certification
17% are not happy with the standard of the CDCS certification

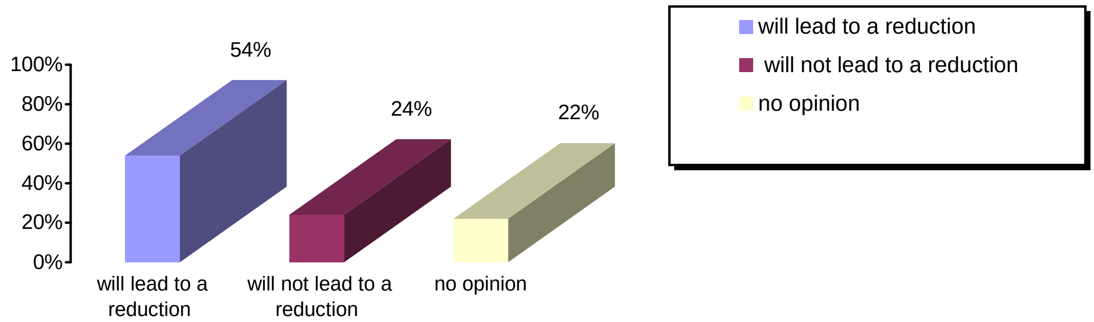
> *"The certification is more difficult for non-native English speakers."*

> *"Will be even better when available in more countries."*

> *"The difficulty level of CDCS examination is too high with regard to the day to day needs of a DC specialist."*

4.4 ISBP

54% believe that ISBP will lead to a significant reduction in the number of documents refused for discrepancies on first presentation under LCs.



54% believe that ISBP will lead to a reduction in discrepancies
24% believe that ISBP will not lead to a reduction in discrepancies
22% have no opinion

The ISBP was the most commented upon item of the survey. The following comments are indicative of the range of views expressed:

"I agree with the statement, however, with still some uncertainty, since the final version of the document seems to be to a very high degree a result of a compromise. Many provisions as appearing in previous versions have been "softened" and sometimes they blur the understanding of UCP 500 and previous ICC documents."

"ISBP will not stop discrepancies being raised by unscrupulous banks and banks raising discrepancies for the extra fee. It should help banks but beneficiaries in many countries will be unaware of it."

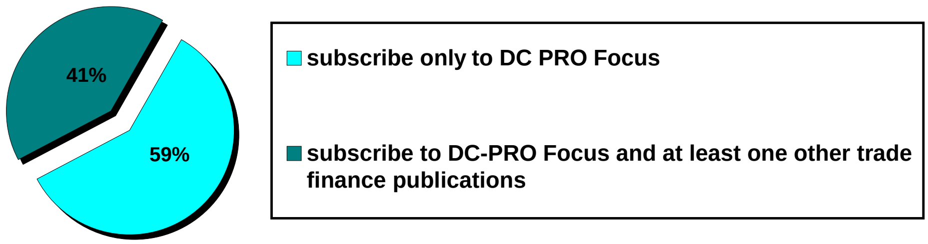
"Not in the near future. From experience, beneficiaries of LCs usually are not quickly trained in new developments of LCs."

"However, unless the UCP itself is drastically changed, I don't think this will bring about a revolution in the discrepancy process."

"Beneficiaries and Forwarders still need to read and understand the document."

"We have to test the acceptability of ISBP by the trade finance community .We should be able to answer this question in 2003."

4.5 Publications



59% of respondents subscribe only to DC-PRO Focus
41% of respondents subscribe to DC-PRO Focus and at least one other trade finance publication

The following are the most commonly subscribed to “other publications”:

Commercial Crime International
by ICC Maritime Bureau

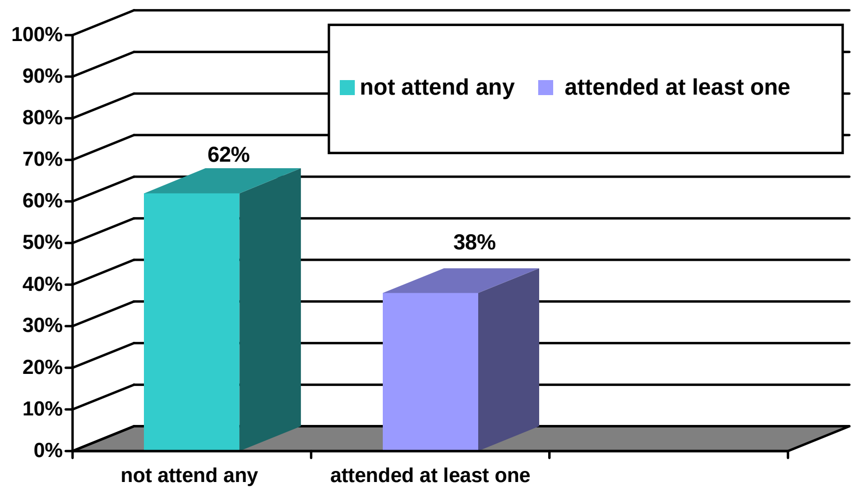
Lloyds Law Reports

Documentary Credit World
by The Institute of International Banking Law and Practice

LC Monitor
by CCEWeb

Trade and Forfaiting Review
by Ark Group Ltd

4.6 Trade Finance Seminars



62% of respondents did not attend any trade finance seminar in the last year.
38% of respondents have attended at least one trade finance seminar in the past year.

The most commonly attended seminars in the last year were on the subjects of ISBP and eUCP.

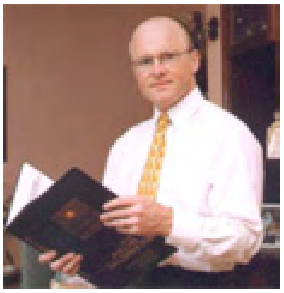
Of the regularly held events, the following are the most commonly attended:

ICC Banking Commission Meetings
held by The International Chamber of Commerce

Annual Survey of Letter of Credit Law and Practice (Various countries)
held by The Institute of International Banking Law and Practice.

Annual IFSA Conference (US)
held by The International Financial Services Association

Commentary by Vincent O'Brien



Vincent O'Brien is an experienced International Trade Banking Specialist with over 20 years international experience with banks in Europe and the United States as well as significant consulting and training experience in more than 30 countries worldwide. Vincent works with leading banks and development agencies in the establishment of trade finance operations in emerging markets as well as the development of technology driven trade finance training structures.

During the calendar year of 2002 Mr. O'Brien delivered technical training workshops in 16 countries that were attended by more than 1000 participants from approximately 300 banks.

Vincent is the examiner in the Finance of International Trade with the Institute of International Trade of Ireland. He is a regular contributor to international trade and payment publications such as 'Documentary Credit Insight' of the International Chamber of Commerce (ICC).

Vincent provides the Documentary Clinic in the International Payment Journal 'Letter of Credit Monitor' and is a Documentary Credit Specialist with the United Nations Conference on Trade and Development in Geneva (UNCTAD).

Training in professional disciplines is often seen as a 'soft skill'. It is viewed as something that is nice to have when budgets are bulging, however, when budgets are tight training is very often the first casualty. In terms of the professional development of staff this is a mistake, but in terms of trade finance and the delivery of documentary credit services this is a recipe for disaster.

Documentary Credit operations within any bank expose the bank to risk. The potential for loss is significant, and the risk of losses increases quite significantly in times of economic downturn. The risks arise due to the technical errors of operational staff and ill-advised decision making of management. And can be very hard to quantify from a risk management perspective.

One measure that banks can take to counter these risks is to centralise their LC operations. This centralisation process can have the benefit of bringing significant economies of scale, operational efficiency and higher standards of customer efficiency – provided implemented correctly.

However, the value that quality training can provide as a risk management tool is often misunderstood, or overlooked, by senior bank management (who may be removed from the day to day operations) and the competitive advantages that can be gained through the delivery of quality customer service by highly trained technical staff are lost.

Training Plan

It is interesting to note that 91% of respondents have a strategic training plan for training staff. This percentage seems very high. From my own experience, the industry average is significantly lower - in the region of 50%.

This contention is supported by the fact that respondents to this DC-PRO survey are already part of the dcprofessional.com community and are thus pre-qualified as professional trade operations with a serious interest in the provision of high value training and information to staff within their sphere of operations.

I am aware of many banks that do not appreciate the importance of training/professional development in this complex technical area and only send staff for professional technical training when and if local seminars are provided or organised.

It is clear that the trend towards centralisation of operations facilitates the development of strategic training plans.

One of the comments provided in this survey indicates that it can take 3 to 5 years to develop professional competence within this area – starting with basic trade products such as collections and progressively advancing staff to more complex products with higher risk elements.

This is the kind of strategic training that I believe is necessary in banks from a risk management and professional development perspective. Without doubt, however, the training methodology applied can impact greatly on the time required to achieve technical competence in documentary credit operations.

Training Methods

The results of this survey indicate that traditional training methods remain strong within LC departments:

- 39% employ a combination of stand-up training and on-the-job training.
- 13% employ on-the-job training only
- 11% employ stand-up training only

However, this is changing. Technology based training solutions, such as DC-PRO Mentor, have gained a foothold in the industry and are an effective method of delivering standardised training:

- 30% employ a combination of technology based training, stand-up training (internal and external experts) and on-the-job training.
- 7% employ a combination of technology based training and on-the-job training

So, what is the best method for the delivery of training? The answer is that there is no single best way. The best results are achieved for students and banks through the use of “blended learning”.

Blended learning involves the use of professional tutors in conjunction with technology driven training and reference materials. This type of blended learning facilitates the accelerated learning of international rules and standards together with localised policies and the application of internal procedures. This is almost impossible to achieve using “single method learning”.

CDCS

The CDCS has been established as the benchmark certification for staff within the industry - 46% of respondents to this survey indicate that at least one person within their staff hold the CDCS designation.

Clearly, the market has expressed its desire for a formal certification through the human resource and employment policies of banks and also through the desire of individuals within banks to obtain a marketable accreditation.

I have encountered many documentary credit professionals who proudly reference the CDCS in their curriculum vitae.

The satisfaction rate for the CDCS accreditation is very high at 83%. However, the 17% dissatisfaction rate is not insignificant.

I believe that this satisfaction rate could be improved through a more integrated approach to certification and the associated training. Certification cannot be looked at in isolation. Training and certification (of training) go hand in hand and must be an ongoing integrated process. Again, I feel that blended learning in conjunction with the certification would produce the optimum results.

ISBP

54% of respondents to the survey believe that ISBP will lead to a significant reduction in the number of documents refused for discrepancies on first presentation under LCs.

Having lectured on ISBP and discussed ISBP with bankers in more that 8 countries so far in 2003, I can attest that in almost 100% of cases bankers found many of the interpretations or clarification contained within the 200 paragraphs of ISBP of value.

However, one worrying trend is that while the ISBP is an official document of the Banking Commission many document checkers (and even their management) are not quite sure how to apply ISBP in day-to-day practice.

On the surface it is clear that the ISBP are not rules - that is the role of UCP 500. However, the structure of the ISBP booklet and, indeed, the language used ('must' and 'should') has seen some documentary checkers treating the ISBP as another book of rules. This could cause many unforeseen complications and detract from the benefits of the introduction of ISBP.

Publications

In terms of physical paper publications Documentary Credit Insight of the ICC is clearly seen as the technical journal for the industry.

It is interesting to note that some 59% of respondents subscribe only to DC-PRO Focus. It is evident that the searchable DC Insight archive is a major attraction to users.

However, a number of publications such as Documentary Credit World, LC Monitor and Trade & Forfaiting are popular and provide alternative views on developments in documentary credits and trade finance.

Trade Finance Seminars

Banks can benefit greatly from attending trade finance seminars. They represent a valuable opportunity to network, gain knowledge and share experiences.

38% of respondents to this survey share this view.

The standard of seminars can vary enormously and it can be difficult to ensure the quality of information and delivery provided by the facilitators. Especially if there is an expert panel involved that cannot agree on correct interpretations of UCP 500, ISBP etc.

I would like to conclude by congratulating the respondents to this DC-PRO survey for the frank and direct responses they have provided to the questions posed. This ‘survey medium’, in fact, imitates the knowledge sharing capacity of the traditional trade finance seminar – but the use of technology allows these results to be achieved on a global basis.

Vincent O’Brien is the First Director of the Electronic Business School of Ireland
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Acknowledgements

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