BExA Commentary
Bank Payment Obligation (BPO)

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Bank payment obligation: *An irrevocable obligation of an Obligor Bank to pay a specified amount to a Recipient Bank in accordance with an established Trade Services Utility baseline of a single Trade Services Utility transaction.*

BPOs are a clear sign of the direction international trade finance is taking: more automation leading to greater efficiency. The International Chamber of Commerce and global financial messaging giant SWIFT believe BPOs will play a key role in international trade in future. In 2013 the ICC issued 'Uniform Rules for Bank Payment Obligation' (URBPO).

Whereas letters of credit presentations are paper-based, BPOs are underpinned by the exchange of data rather than documents and therefore lead to a streamlining of processes. This electronic exchange of data avoids the costs and delays associated with physical documents and the time-consuming ploughing through documents. This leads to faster, cheaper payments and better capital management for the bank when compared with letters of credit. BPOs can also be used to cover the underlying payment risk or to finance trade.

How BPO works

For a BPO to work, the banks of both the buyer and seller must have subscribed to BPO services. The buyer's bank commits to paying a specific amount to the seller's bank if certain trade data submitted to SWIFT's central platform - the Trade Matching Application (TMA) also known as TSU capability - successfully matches up. There are pre-agreed rules for automatic data matching. Consistency is ensured through the use of a "dictionary" of common data that is based on the XML ISO 20022 trade services management message type (TSMT).

BExA understands that, until a trade pattern is established between the exporter and its bank, it is likely that Letters of Credit will remain the preferred instrument for payment for exports. Companies with strong links in regular supply chains and advanced systems have started thinking carefully about BPOs. Early users are in the energy and commodity sectors. Banks will play a critical role in educating customers about BPO. As yet we have not been made aware of any BPO transactions where the data matching has been unsuccessful, and how these issues are resolved.

BPO may be suitable for their domestic and international trade transactions where:

- Trade with long-term partners is through letters of credit and the parties want to switch to something more efficient, or where there is a need to move away from paper or proprietary systems.

- The exporter sells to a regular customer on open credit terms but needs payment risk protection and/or finance for an individual, e.g. larger, contract.

- An Exporter wants to provide longer credit terms to certain customers and to arrange trade finance to close the funding gap.

Contact your bank for further information.

Further reading: ICC UBRPO http://www.iccwbo.org/about-icc/policy-commissions/banking/task-forces/bank-payment-obligation-(bpo)/

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