

The role of e-finance in supporting international trade assignment

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The role of e-finance in supporting international trade Electronic finance, or e-finance is changing the way financial services are used in international trade. E-finance refers to financial services offered electronically, for example, via Internet. It includes Internet banking and payments, e-brokerage, e-insurance, e-trade, and other related services (Purcell 2003, pg 1). As more financial services are becoming available in electronic format, they are becoming popular for international trade, even among developing countries. Trade-related financial and insurance products are being adapted to customers' needs.

Loan requests, credit insurance, letter of credit confirmations, and other documents can be transferred electronically. E-finance is forcing standardization, adding speed, and reducing costs. These advantages can help countries stay competitive in the international trade sector (Cattani 2000, pg 13). Banking and insurance services are not new forms of services offered electronically. A large segment of the financial sector has gone digital years ago and private electronic networks have been used for years to transfer funds. Service providers such as VisaNet, SWIFT, and FedWire have been used for years before the Internet.

However, the Internet has proved to be both a facilitator and a barrier for e-finance adoption (Cattani 2000, pg 13). E-payment is vital to the e-trade cycle because it is the purpose of any transaction. However, e-payment as well as other financial services requires the latest and finest security and encryption. The Internet is an open highway for information sharing which currently serves as a barrier for e-finance adoption. Security technology

allows e-payments to present quick, cost effective, and secure completion of transactions (Cattani 2000, pg 13).

In most developing countries, there is a lack of credit reporting systems and the countries still need to improve these in order to improve the quality of financial information on enterprises and rate them as credit risks (UNCTAD 2005, pg 117). E-credit information and e-credit insurance are ways to improve irregular information on enterprises as credit risks. If they can improve this, then their access to suppliers' credit or trade-related finance and e-finance provided by financial intermediaries can be improved (UNCTAD 2005, pg 132).

Trade finance providers are moving online not only to overcome this irregular information on enterprises at lower costs, but to also provide finance at lower cost through the more extensive use of e-payments, e-banking, and e-trade finance techniques (UNCTAD 2005, pg 133). One way countries can use the Internet to finance international trade is through e-factoring. Factoring involves interactions and exchanges between three types of firms: the client firm (or supplier), the customer firm (or buyer), and the factor (Soufani (2002), pg 21).

The factoring company provides the client firm working capital by exchanging the account receivable for cash. The factoring firm takes on the credit risk for the accepted accounts receivable, sales ledger administration, and collection for the accepted accounts and maintains all essential records in order to collect debts purchased (Soufani (2002), pg 240). Factoring is mainly a financial process where a particular firm (the factor) purchases from <https://assignbuster.com/the-role-of-e-finance-in-supporting-international-trade-assignment/>

its clients (or the suppliers) their creditworthy accounts receivable at a discount, or for a service fee plus interest, so the client is able to obtain an advance on cash as a form of financing.

The largest international association of factors is Factors Chain International (FCI), with nearly 200 factors (including banks offering this service) members in 59 countries (UNCTAD 2005, pg 138). The association has developed a centralized Internet-based system of electronic communications. The servers have central processing, reporting, message validation, and delivery that are available to members free of charge. Information is now exchanged solely through EDI format.

Information about the factored invoices and cooperation with a multitude of correspondent factors are all reflected in FCI's system (UNCTAD 2005, pg 138). Another example of a program that facilitates factoring through its online services is The Nacional Financiera (Nafin) development bank in Mexico. Nafin has created an internet-based market infrastructure to facilitate online factoring services to small and medium enterprise suppliers. The program allows small suppliers to use their receivables from creditworthy buyers to receive working capital financing (Klapper 2006, pg 3124). Another form of finance that can be used through the Internet to support international trade includes payment cards. Payment cards are an e-trade finance solution. Company managers and government employees are using them more often to meet their office and other working capital requirements. Card purchases make simpler the procurement process by combining functions such as purchase order, receipt, accounting, and

payment in one card operation. Visa is an example of a major card and other e-payment solutions provider.

The company has developed projects for businesses and Governments to facilitate the e-payments such as purchase cards (UNCTAD 2005, pg 138). Countries with developing economies and emerging economies are very active in e-banking services. In fact, many of them have developed online services in payments and trade finance to support national exporters or to provide high-quality services to importers. These countries have adopted e-finance to support international trade (UNCTAD 2005, pg 139). There are several examples of countries adopting practices and using them in the best way possible.

The ICICI Bank of India has developed intricate e-trade finance services for corporates with a special suite dedicated to SMEs. It is one of the most advanced banks in terms of online financial services in Asia, offering services such as Internet banking, debt online, bill payment, trade services, etc. through its e-business suite. The bank tries to provide a full range of services for its exporters and supports Indian importers as well as claiming to arrange Indian importers a supplier or a buyer credit from an exporter or its bank at competitive interest rates (UNCTAD 2005, pg 139).

The Development Bank of the Philippines (DBP) has a partnership with a local company named Smetrix, and has planned an online trading system for SMEs, which has been approved by the Securities and Exchange Commission. This online e-trade finance marketplace is supposed to provide the opportunity of raising capital for companies by selling their receivables

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to banks and other financial institutions (UNCTAD 2005, pg 140). The time required for confirmations and authentication between trading partners is supposed to be minimal and lending to SMEs will primarily come from an electronic financing facility.

A key technology provider has been chosen to support digital warehousing of the trade documents as well as interfaces with payments systems, while an international bank has the role of the central registry for the originated trade receivables and securities (UNCTAD 2005, pg 140). SMEloan of Hong Kong (China) and its technology solution company Maveo Systems Ltd developed a web-based software and an operating model that captures in real time the cash flow and business performance of the borrower SMEs.

To start lending, SMEloan requires information from a borrower and then credit risks of borrowers are evaluated online on the basis of the ongoing submission of sales, receivable and buyer collection (UNCTAD 2005, pg 140). This way creditors will be able to have a more proactive risk management approach since borrowers performing out of the norm will be flagged. SMEloan has started to insource the SME lending services of major banks to contribute to its success (UNCTAD 2005, pg 140).

These developing countries have implemented best practices for e-banking services to promote online services in payments and promote trade finance. Developing countries can use their resources to apply state-of-the-art technologies for e-trade financing and for supporting national exporters and importers to stay internationally competitive. E-finance plays a large role in both developed and emerging economies in supporting international trade.

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In the future, the distinction between finance and e-finance will become less relevant as the center of financial technology becomes Internet-based.

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