

Claus Asbjørn Stehr, Head of Trade Finance, Nordea Bank

Need vs Fashion

There is much talk about paperless international trade. Denmark-based Nordea's head of trade finance, Claus Asbjørn Stehr, discusses, among other things, with Ravi Mehta, whether paperless trade is a need or just a high-tech fashion, and whether paperless trade can accelerate economic development in low-income countries, some of which may be facing the problem of paper shortage.

GTR: Is paperless letter of credit (LC) banking a need or just a high-tech fashion?

Stehr: Talking about paperless LC banking one should define what is meant by that. Today a very large part of the LC process is in fact electronic (or can be made electronic relatively simply). If by paperless LC banking you refer to the documents being presented, then I see this as a natural step in the evolution of international trade. Looking at the market right now, there does not seem to be a "need" at this point in time.

GTR: What are the objectives and prospects of paperless LC banking?

Stehr: Paper in trade creates some basic limitations. In the perfect paperless world time and distance are of no importance. Only limited human interference is needed. In theory documentation will be (can be) fast, efficient and (close to) error free. I should add, that we are somewhat far from the perfect paperless world.

GTR: What are the usual problems in paperless LC banking?

Stehr: The core 'challenges' are triggered by the practical difference between paper and electronic. Working with paper may be slow(er), but you are working in an 'open' environment, where it is easy and flexible to relay the documents from one person to another: hand-to-hand, mail,

express, courier etc.

When you enter into an electronic environment, there are a number of issues to consider: is the document available in electronic format? Which format? Can the receiver open this format? How do you transfer? How is the security authorisation/authentication? Legal implications? And so on. These issues are not limited to only two parties but to all parties in the trading chain,

Nordea's Stehr:

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including shipping lines, insurance companies and banks etc.

Each and every 'link' between the seller and the buyer must be established /agreed before the transaction can be established.

GTR: Will paperless LC banking lead to paperless international trade?

Stehr: This is a good question. There are two ways to go here. Either it is the other way around: paperless international trade will push the LC industry in that direction, or paperless international trade will (gradually) move the market

away from the LC instrument towards some easy, cheap and electronic solutions.

Which way will prevail will depend on the LC banks' ability to innovate the LC process. No matter how you look at this, the core issue is trust: do the parties trust each other, the instrument they use, and the documentation they will receive?

GTR: Is paperless international trade possible with low-income countries?

Stehr: When discussing low-income countries, this may in fact be their opportunity to leap frog and when the solutions become more standardised and easily accessible, it is likely that they will skip several steps in the evolution.

Looking at it short term

controversial document examination? Will a paperless process reduce costs and delays?

Stehr: The potential is there and there are initiatives in the market, that clearly point in that direction. However, at face value, turning documents electronic will not change anything in itself. If, for example, documents are produced as they always have been, and the only difference is that the 'send' button is used instead of the 'print' button, then there will be no change. So the fact that it is electronic opens the possibility of reducing discrepancy rates; but it is not a given fact.

GTR: Is there anything else you can add on this topic?

Stehr: In the answers given



however, working with high-tech tools often requires a high-tech infrastructure; and both parties should be more or less equal. It is like the telephone: it is a powerful and efficient tool for communication: but only if the people that you are to communicate with also have one. When however you can buy a mobile telephone for US\$1, then you will do that – even if you did not have a telephone in the first place.

GTR: Will paperless LC and trade solve the nagging problem of discrepant documentation and

here the focus has been on the documents. What is interesting though is that, from an electronic perspective, there has been – and still is – much progress. I think we should move the focus from documents, until this is 'mature' enough, and focus on creating value-adding innovations, gradually improving the LC as an instrument. These innovations may or may not be electronic, that is not the point – the point is to make the LC instrument (and related services) better.