Web-Based Financial Settlement Comes of Age

Privacy and security concerns are no longer valid in many cases

By Lara L. Sowinski

While the internet continues to redefine the ways in which business is conducted—from finding buyers and sellers, to procurement, transportation, and customs clearance—there is one component of the business transaction that has been somewhat slower in moving over to the e-commerce arena: financial settlement.

Whether the transactions are business-to-consumer or business-to-business, people and companies have been hesitant to use the internet to exchange payments. Security is viewed as a leading risk, as is the lack of web-enabled services that can adequately perform the transactions. In its report, *Barriers to On-line Purchasing, 2000*, PriceWaterhouseCoopers found that 79% of the respondents cited credit card security as their main concern, followed by disclosure of personal details (77%); distrust of web retailers (48%); unfamiliarity with on-line web storefronts (40%); complex order process (21%); and time-consuming order process (20%).

The stakes are even higher when it comes to global B2B, where extending credit is an essential part of the transaction. In fact, companies are now extending more credit to their customers than are banks. With credit and financing such a fundamental piece of every B2B transaction, bringing these components up to web speed and enabling companies to better manage risk across their portfolio of customers is becoming a strategic e-commerce priority.

Overcoming the Fear

Obviously, well-known financial institutions and those with a brick-and-mortar presence have held an advantage over web-based competitors and products, but that's beginning to change. Regardless of the obstacles, web-based financial-settlement services are finally starting to take hold. Businesses want to reduce paperwork and improve processing time, while customers want a simple and comprehensive on-line transaction.

"International trade is a $7 trillion market," remarks Kurt Cavano, chairman and CEO of TradeCard (www.tradecard.com), an on-line trading network that helps manage international transactions from purchase order through settlement. "Greater efficiency means reduced trade-transaction costs for businesses such as RadioShack, a TradeCard customer who imports heavily from Asia. And as more companies realize that they can focus less time on trade transactions and more time on their core business, it means more business for us," he adds.

Buyers and sellers are required to first become TradeCard members. The transaction is initiated by the buyer, who creates an electronic purchase order in one of three ways: through the TradeCard system using its contract templates; by means of an electronic file from a company's ERP system; or from an on-line marketplace. The seller is then notified by TradeCard that there is a purchase order pending review. The buyer and seller can further negotiate the purchase order on-line. Then, once they agree to the terms, the parties authorize the purchase order with digital signatures. All of the transactions that meet TradeCard's compliance criteria are assured for payment by Coface. The cost is $150 for each transaction up to $100,000.

TradeCard's Cavano says that "our main competition is the old way of doing business. Many potential customers who are comfortable with the old way of doing business. But when they see how much faster, cheaper, user friendly, and more secure our on-line system is, they're willing to dump the LCs and all the paper, delays, and bank fees that go with them."

Two Different Flavors

If it's credit processing that's slowing down your e-commerce transactions,

Business-to-Business Forecasts, 2000-2004

Region	1999 (US$)	2004 (US$)
World	145.00 billion	7.29 trillion
US	91.35 billion	2.84 trillion
Europe	31.80 billion	2.34 trillion
Asia-Pacific	9.20 billion	992 billion
Japan	11.10 billion	861 billion
Latin America	740.00 billion	124 billion

Source: Gartner Group

Business-to-Business On-Line Purchasing (US) 1998-2004

Year	OnLine Sales (US$)	Off-Line Sales (US$)	Percent of Off-Line Ordering
1998	0.67 trillion	9.0 trillion	7%
2000	1.20 trillion	9.7 trillion	12%
2004	4.80 trillion	12.1 trillion	40%

Source: Boston Consulting Group

one option is the service offered by e-Credit.com (www.ecredit.com). Again, the lure is quick turnaround time for processing orders and greater customer satisfaction. According to Deepak Verma, executive vice president of corporate development at e-Credit.com, "We are not a credit-granting institution. We provide the infrastructure large companies need to process credit decisions quickly and efficiently, supporting the demands of their e-commerce and traditional sales channels."

By using e-Credit.com's "Global Financing Network," businesses can link up with financing partners and information services at the point of sale, gaining real-time access to multiple lenders that cover a broad spectrum of risk appetites, financial products, geographies, and transaction sizes. Credit decisions can be made in seconds, instead of days. The various services come in modules so a company can automate only a part of the credit, financing, or underwriting process, or automate the entire e-commerce transaction.

Although Tradepaq's (www.tradepaq.com) services extend beyond financial settlement alone, this feature combined with the company's export, regulatory, and logistics services make Tradepaq's product very attractive.

"You can't look at the value of financial settlement in a vacuum and expect the functionality to reside in just electronic funds transfer," says Phil Marlowe, director of applications solutions at Tradepaq. "Rather, users are demanding much more than that in terms of security and authentication, workflow and integration, and document-management functionality. There is a reluctance among enterprises, banks, and the net markets, alike, to fully embrace financial settlement primarily because of the lack of security—specifically encryption and authentication functionality in these financial-settlement systems," Marlowe continues. "Each has its own concerns. For instance, enterprises do not want their private information insecure across the web and they don't want to re-key in information that already exists in their back-office systems. Banks, on the other hand, know that they can significantly cut their operating costs using electronic settlement processes, but they lack the tools to automatically receive and transmit authenticated messages and are forced to do it manually. The result is that their costs will end up increasing instead of decreasing."

As for the future, says Marlowe, "The greatest opportunities for financial settlement fall within integration. Users are demanding a seamless integration between financial-settlement systems and the back office, all in a secure environment. With this type of functionality, users will benefit from fewer manual steps, better security, decreased errors, more operational efficiency, and improved worker productivity." **WT**