



Technology That Aims To Make Trade A Little Less Risky

As the dangers grow, so does the ability to manage risk.

By Amy Zuckerman

We live in a world full of global opportunities and global risks. Terrorists or geopolitical disputes can upturn shipments of everything from sneakers to computer chips and lingerie. No matter the product, there are always worries about lost cargo, the buyer's credit and general ability to pay, currency fluctuations, and meeting compliance and security regulations.

But that's not the end of what today's risk managers call all the ele-

ments of a "risk portfolio." In volatile markets like electronics, shippers worry about slow downs that make a product obsolete by the time it hits retailers' shelves. In these tight circumstances any mishaps—from manufacturing to shipping—cost big-time. So risk managers now assess "organizational exposure," or places where weak organization creates problems.

And the off-shore trend, not to mention global outsourcing, also

means greater opportunities coupled with strain to meet tight shipping schedules, all of which adds up to more financial risk. Then there's buying and selling on the web in a global market, which opens up its own Pandora's Box of potential hazards, from currency issues to credit and lack of warrantees.

Tally all of these potential risks and "at the end of the day it comes down to money," explains John Hagerty, vice president of research at AMR Research, a Boston, Massachusetts-based consulting company that specializes in tracking technology related to the supply chain. "Risk management is growing out of the compliance front and taking it to the next level. It's not just complying with the letter of the law, but managing with a risk profile, which will differ from company to company," Hagerty explains. "All have their own hot buttons and tolerance to risk. What's important is trying to figure out places where things can go wrong (in global trade) and ways to plug them."

"When you sell overseas, the assessment of risk involves political and economic factors that differ from one market to another," adds Christopher Short, vice president of international and strategic accounts for Coface North America, a French-based underwriter and credit manager with U.S. headquarters in East Windsor, N.J. "Terrorism creates volatility, which increases both risk and opportunity. As for the Internet, it's brought the world closer together and is expanding horizons for businesses, but it also made the whole world more accessible, increasing competitiveness and meaning you have to deliver."

Insurance companies have traditionally handled issues such as lost cargo while banks traditionally dealt with credit and currency issues. Experts interviewed for this article say there are new players entering the risk management field, as well. Hagerty explains that manufacturers/shippers are avoiding letters of credit—long offered by banks to

reduce credit risk in overseas transactions—because they slow things down. This trend is opening the door for new financial risk managers who can “accelerate the flow of cash and automate manual activities.”

So new technologies, and the application of some old technologies, are starting to change the face of the risk management arena, Hagerty explains. Consider TradeCard, Inc. in New York City, which focuses on automating what CEO Kurt Cavano calls “the financial supply chain—the process that exists between when the order happens and when settlement takes place.”

TradeCard is one of those new web-based services that aims to replace the

not on some State Department list that says you're not allowed to work with them? TradeCard provides the sort of legal infrastructure to make sure you can move the money, provide guarantees, and do that kind of work electronically. That means we're a technology environment, a legal environment and a financial environment all delivered electronically to the desktop of our customers, whether they're big buyers like JC Penney, Staples or Columbia sports with suppliers all over the world,” says Cavano.

William B. Diaz, managing director of CS STARS Sales for Marsh USA Inc. in Chicago, Illinois, says they've noticed “a growing trend among corporate customers requesting a single computerized system

problem is Encompass (TM)—an online, proprietary cargo certificate issuance, reporting and claims management system that aims to “streamline day-to-day insurance handling for world trade professionals.” Groff says it's also designed “to enable risk managers and our insurance specialists to evaluate where shipping risks may be concentrated and target customized coverage solutions.”

She offers the example of a manufacturer/shipper insured to \$10 million per any one location for each shipment. If a vessel is rerouted because of severe weather, the shipment is delayed and the company could suffer far more losses than the \$10 million per location coverage. The Roanoke tool, Groff says, helps this sort of customer assess “these potential exposures” and carry adequate insurance.

“Analyzing claims history and reacting accordingly is also critical to controlling loss ratios and keeping cargo insurance programs cost-effective,” she adds. “Data management systems can help risk managers and their insurance brokers monitor claim statistics by consignee, destination, commodity, carrier and cause of loss. This would then help to identify a problem with losses occurring at a particular plant due to improper packing, for example.”

And, Coface has developed proprietary software tools that are accessible to Coface underwriters and are shared worldwide with customers throughout their operation, according to Short. Cofanet (TM), for example, is a web portal that allows customers to see their portfolio online to more efficiently manage their insurance policy. Cofanet also offers them a glimpse of 43 million other companies worldwide so they can check if a potential business partner is credit worthy, he says. And @rating (TM), a Coface credit assessment tool, is designed to help companies conduct a worldwide comparison of a potential business partner's “credit abilities,” Short adds.

“Virtually all of our clients are eligible to access these services and about three-quarters use them actively, he explains. “We hear these tools are very beneficial to them. All a manager or customer needs to do is have access to a computer and the web.” wr

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letter of credit by providing a sort of credit card for international trade. While “providing the technology to allow global buyers and sellers to connect,” Cavano says TradeCard, Inc. also offers “the kind of legal infrastructure to make sure you can move the money, provide guarantees, and do that kind of stuff electronically.” The company also works in alliance with 18 financial institutions “that can move the money when it's time to move the money and provide guarantees so you can be assured (you or your customer) is going to be get paid.”

Besides addressing financial risk while attempting to speed the trade process, TradeCard also provides data visibility, which company officials also view as another form of risk management. “We give both the buyer and seller visibility into the whole process, which mitigates your risk because you know what's going on,” Cavano. He also cites a legal framework “in which to do all this. How do you make sure you can move money into particular countries? How do you make sure the people you're doing business with are

to manage risks across their organization. Traditionally, there are many disparate systems, which ruins the opportunity for collaboration across departments toward quick resolution of these issues.”

Marsh, a risk and insurance services firm, is responding through its STARS software product, which Diaz says “is being used by organizations to manage a broad array of risks such as claims, legal actions, theft and security breaches. Our reporting tools allow clients to spot trends, mitigate damages and identify possible fraudulent occurrences. Using a single system improves collaboration by allowing multiple departments to manage the pieces of a single event that pertain to their area of responsibility,” he explains.

Traditional cargo insurers like Roanoke Trade Services, Inc., with offices throughout the United States and agents in 100 countries worldwide, are also creating software tools to address risk as it relates to “financial exposure associated with the movement of cargo.” Karen Groff, vice president of marketing in Roanoke's Boston office, says their answer to this