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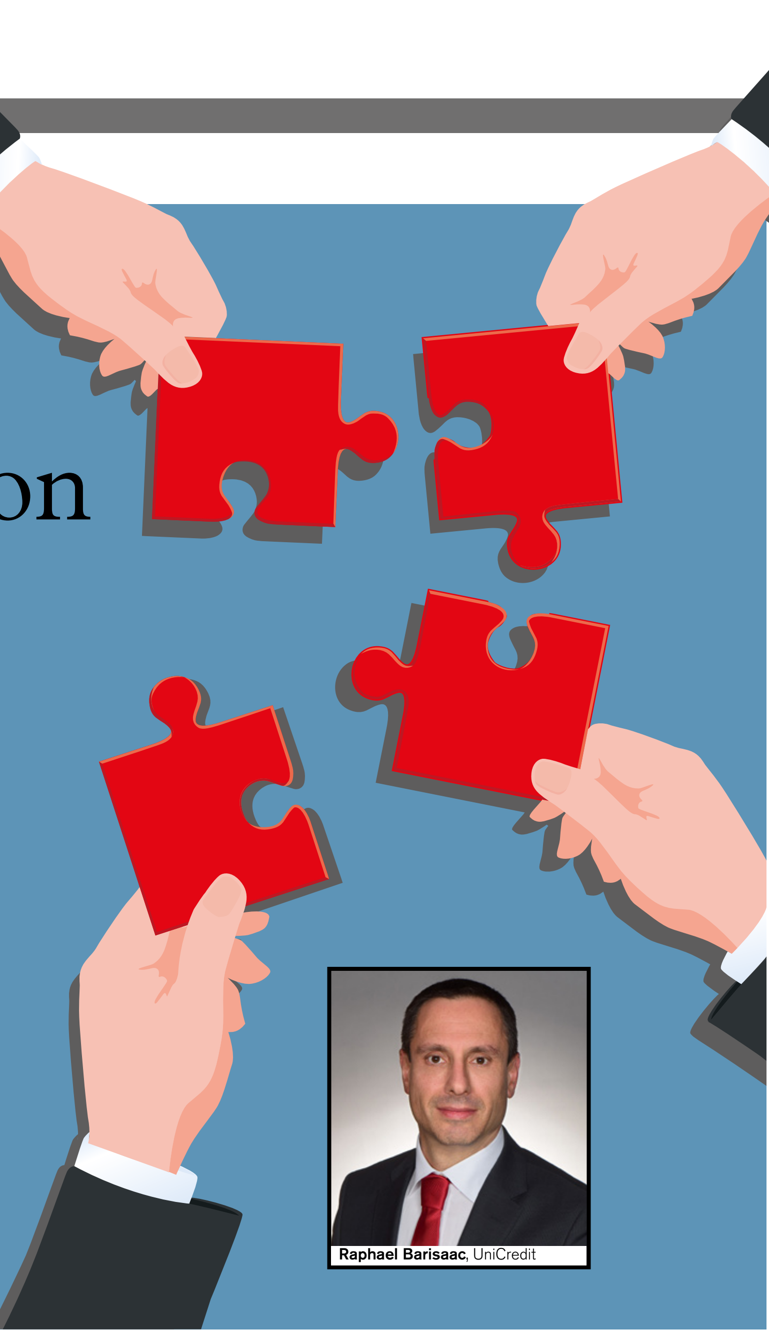
The whole solution and nothing but the solution



Raphael Barisaac, UniCredit

Corporates are coming to appreciate the value of holistic working capital management over traditional single-product offerings. This doesn't mean abandoning old techniques, but rather rethinking their role as part of a more comprehensive approach, writes *Raphael Barisaac*, UniCredit's Global Co-Head of Trade Finance and Working Capital Management.

Businesses and their banks are changing the way they approach trade finance and working capital management. The days where large corporates would implement individual products such as factoring or forfaiting to address isolated challenges are coming to an end. In their place, momentum is gathering for a more holistic approach, where corporates map out a wholesale plan to address their working capital needs and draw on a diverse toolbox of products to do so.

This new approach positions corporates perfectly to take advantage of the vast and continually growing range of solutions now on offer to help them manage their working capital. Whether it's through cutting-edge platforms such as we.trade and UniCredit's new working capital platform, or through more traditional offerings such as factoring or forfaiting, the options available to corporates are growing and developing every day.

The job for banks now is to foster greater awareness of these tools and initiate more effective dialogues with corporates based on a complete overview of their working capital requirements.

Improving the dialogue between banks and corporates

Up until very recently, the interface between banks and corporates has been somewhat problematic. Companies would be approached by multiple bank teams – each operating in separate silos and looking to pitch their own specific product. In practice, this means treasurers sit through several rounds of meetings with different representatives from the same bank, with their own product-driven agenda. It's repetitive and it rarely leads to a satisfying resolution.

This is beginning to change, however. Rather than hold multiple conversations centred on specific products, corporates and banks are now looking to hold a single conversation about the business's working capital requirements in order to develop a single, all-encompassing solution – often incorporating multiple products and banks.

The result is that banks take on an important advisory role – listening to a company's challenges and suggesting the right product, or combination of products, to address them. Better still, they can carry out their own analysis in advance based on the client's existing transaction data – highlighting current inefficiencies (perhaps even benchmarked against industry standards) and suggesting an appropriate solution. With this in mind, UniCredit has established dedicated working capital advisory teams, located in various geographies, whose role is to advise corporates clients on which programmes and solutions are most suitable for their unique working capital situation. This could be anything from a highly sophisticated and innovative programme, combining multiple techniques, to a simple plain-vanilla product.

Opening eyes to new solutions

With a more constructive dialogue in place between them and their banks, businesses will find that the door is opened to a whole range of solutions they may not even have known were available. For instance, new blockchain-based platform we.trade simplifies trade finance processes by addressing the challenge of managing, tracking and securing domestic and international trade transactions.

Run by a consortium of nine founding banks, including UniCredit, we.trade announced in July that it had executed the first commercially viable and operationally reliable open account trades via blockchain. On 25 July, UniCredit established itself as a first mover on the platform in Germany, executing a live trade finance transaction for Navabi GmbH, an internationally active plus-size online retailer, using the platform to place an order with a Spanish supplier. The bank is also offering we.trade in Italy.

Looking ahead to 2019, the aim is to systematically roll out we.trade to additional members in Europe and beyond, with numerous banks and corporates around the world lining up to connect to the platform.

While collaborative solutions such as we.trade continue to make a splash in the press, banks are also developing their own internal solutions to working capital issues. One of UniCredit's most recent and exciting innovations is UC Balance – a B2B platform that connects mutual clients of the bank through reciprocal payments and collections.

UC Balance, currently available in Italy and set for a broader roll-out in due course, uses an algorithm to generate closed loops of client payments, where, to use a simplified example, A owes B, B owes C, and C owes A. Having identified these loops, it then initiates early payments that ensure that all parties receive their money in advance of the due date – freeing up working capital, reducing risks, and promoting strength right down the supply chain.

Opening access to SME finance

At first glance, these solutions may look like outliers – catering to an SME market that has historically been underserved by bank innovation. This has long been seen as an unsavoury, but inevitable truth: smaller corporates' low transaction volumes simply can't justify the necessary investment from banks to develop tailor-made innovations.

Yet this is beginning to change. Technology continues to advance and a new generation of fintechs is swooping in to plug gaps in the market. Consequently, there is a growing cluster of banks and fintechs teaming up to develop solutions directly targeted at SMEs.

The growing appetite among banks for the "originate-to-distribute" approach to corporate debt, for instance, is generating new avenues of financing for smaller businesses. One model increasing in prevalence sees banks partner with web-based secondary market platforms. These connect them with non-bank investors willing to buy trade finance assets originated by SMEs.

This approach increases banks' lending capacity for any given company, industry, or geography, and can fuel a virtuous circle of growth as non-bank investors increasingly tackle a portion of the estimated US$1.5tn global trade finance gap.

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Catering to the long tail of payables finance

Payables finance is another solution many smaller businesses may still feel is inaccessible to them. Historically, the payables finance industry has been mesmerised by the so-called "short tail" of the supply chain – the top 20% of the supplier portfolio that typically covers around 80% of the procurement volume. Programmes for the short tail usually have certified onboarding models that make it easier for banks to onboard larger suppliers, yet the smaller firms that make up the other 80% – the "long tail" – are often cumbersome to onboard, and struggle with compliance and Know Your Customer requirements. Nevertheless, these small suppliers still stand to benefit from a robust payables finance programme – perhaps even more than their larger peers – and there is huge untapped potential, representing a US$1tn opportunity .

To address this and help bring the long tail onto payables finance programmes, banks should be speaking to individual companies and educating them on the benefits, not only for themselves, but also for the buyers driving the programmes, who can further enhance revenues and KPIs.

Receivables finance – an under-appreciated resource

Payables finance has attracted a considerable amount of industry attention – justifiably so, given the advances in this space. However, more straightforward receivables finance still remains a highly valuable financing technique, often being cheaper and easier to implement than payables finance programmes. Receivables finance is also flexible in terms of its usage, doesn't depend on the credit rating of the client or involve the procurement department, and has a much wider scope – anyone can benefit in some shape or form.

Again technology is making things easier. Not long ago, companies with a diverse range of contracts and debtors would have had to shop around – working not just with banks, but also with factors and insurers – to offload their full portfolio of receivables. Now, however, banks such as UniCredit can offer a hybrid solution, fronting a partnership of banks, factors and insurers to purchase receivables portfolios wholesale and divide them up according to each party's preferences and risk appetites.

UniCredit also offers other sophisticated, tailored solutions, including structured working capital solutions and receivables securitisation, along with more straightforward products, such as forfaiting and factoring – contributing to a broad range of options for companies to offload receivables without participating in a buyer-led programme.

Certainly, the range of solutions available to corporates has expanded significantly in the past few years – and this makes it all the more important that these businesses get the guidance they need from their bank in selecting the appropriate tools for the job. The solutions and services discussed in this article are just a few select examples of what's available and what's still being developed. Now imagine a separate meeting with your bank to discuss each of them. It would be madness. But a single dialogue where the corporate lays out its challenges and the bank guides them through the best options? Now that just might be the ticket.

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