Collaboration promises a one-stop-shop solution for all receivables

Corporates looking to sell their whole receivables portfolio often fail to find a holistic solution, with different financing partners interested in different parts of the portfolio. As such, covering the complete portfolio can be a time-consuming task. Collaboration – between banks, factors and insurers – promises a better option, says *Sebastian Hölker*, head of Structuring and Implementation of Supply Chain Finance Products at UniCredit.

Financing entire receivables portfolios has long been a problem for corporates. Yet it is a problem that may soon be solved. Banks are now looking to collaborate much more with credit insurers and factors to create a single point of contact for clients wanting to sell all of their receivables in one go.

Thanks to well-known benefits such as improved liquidity and risk management, supply chain finance has been consistently popular among corporates. In fact, demand remains high even today, when liquidity is in plentiful supply. In part, of course, this is testament to the continued importance of risk management. Yet there are many other advantages to supply chain finance that are contributing to the current demand.

For example, longer "days sales outstanding" or shorter "days payables outstanding" in the balance sheet provide a strong incentive – as do other working capital ratios and strong debt/equity ratios. These key performance indicators are priorities for many corporates – making supply chain finance a critical technique for treasury departments.

Not the right fit

However, offloading a receivables portfolio and reaping the benefits can be challenging. For example, a typical factor will be reluctant to factor receivables from just one or two large debtors. Factors usually collaborate with insurance companies – using a standardised, analytical approach to spread risk across a number of names. Large amounts on a small number of debtors can cause a problem in this scenario, since they concentrate too much risk in a single place.

These large invoices are therefore more likely to be of interest to banks. Because banks assess debtors on an individual rather than on a portfolio basis, they are happy to take on greater concentrations of risk.

The problem for corporates is that most receivables portfolios feature a range of debtors – both large and small. These seldom fully appeal to banks or to factors because there are often too many debtors for the former to assess, and too must risk in a single region, industry or firm – breaching the latter's exposure limits.

Thus, in many cases, corporates have no choice but to split their portfolios and sell different invoices to different parties – a time-consuming task that reduces many of the benefits of supply chain finance.

Innovation through collaboration

Such was the extent of the problem that UniCredit decided to do something about it by working with a number of insurance companies to find a solution. This solution will inevitably involve banks, factors and insurers working in collaboration – financing entire receivables portfolios as a team.

It's a collaboration with great potential – utilising the complementary strengths of all parties. On the one side, the insurer can cover large numbers of debtors that would be cumbersome to assess individually for the bank. On the other, the bank can cover the larger contracts that concentrate too much risk in one place for the insurer.

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This collaboration could take a number of forms. For instance, the two sides could establish a working group – financing entire portfolios that would be unattractive to either party operating alone. The group could then split the contracts according to their appetite, with the bank covering concentrated risks and the insurance company taking the more diverse, smaller, contracts.

This is a significant administrative undertaking, and it would have only limited benefit for the corporate clients if they would have to split their portfolio amongst the two counterparties – even if the processes were harmonised.

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But, as digital technology improves the speed and ease with which banks can onboard receivables, a further option presents itself: that of a bank fronting the partnership – taking on all the receivables through a state-of-the art IT front end, and subsequently sharing them with the other related parties.

Achieving harmony

Of course, this kind of partnership inevitably entails challenges – not least from regulation. Here, the problem stems from the fact that banking and insurance are two separate disciplines with diverging practices, governed by different sets of regulations.

With this in mind, the challenge is for banks and insurers to find a way of providing a seamless service, while complying fully with their respective regulatory regimes.

The X factor

With these complications resolved, such a partnership offers clear benefits. Chief among them is the possibility for corporates to sell entire receivables portfolios in one go – with trusted and familiar partners.

Of course, there are also benefits for banks, factors and insurance companies – all of which stand to increase their custom by incorporating previously-unfeasible portfolios into their system.

And with UniCredit already working with a number of partners to establish this kind of collaboration, corporates will not have to wait long for the benefits to appear – putting the days of selling their receivables to multiple parties behind them.