# Leveraging Local Expertise In Global Supply chains

*Some aspects of a global supply chain can be more efficient when centralized, but supply chain managers should not underestimate the benefits of local expertise, say UniCredit's Sebastian Hölker, Head of Innovative Trade Products, and Oliver Spitz, Senior Trade Finance Manager.*

In a modern, multi-national supply chain, it is often thought that centralization is the natural path to efficiency-generation. In our view, the truth is more nuanced. While some processes – such as logistics – can be efficiently managed from a central location, there remain others, such as risk mitigation, which cannot.

It is true that logistics providers are now so efficient that international borders are not the barriers to shipping and freight transport they were even 20 years ago. As such, centralized logistics management in one country is a practical and efficient way to oversee a company's international flow of goods.

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But in other aspects of the modern supply chain, such as risk mitigation, we think that the expertise offered by local offices is becoming increasingly important. Certainly, judging the credit risk presented by debtors requires a detailed and specific understanding of their business practices, which is best gained locally for a variety of reasons. For a start, even if corporates and banks have the resources to thoroughly analyse the counterparty risk presented by a corporate in another country, local regulation often forbids to make full use of that information.This is why innovation is necessary to build better tools which leverage local expertise more efficiently in an ever-more global context.

Encouragingly, such solutions are forthcoming. For instance, the Bank Payment Obligation (BPO) is designed to provide the benefits of bank intermediation – such as financing and risk mitigation – with the efficiency of digital processing in transaction settlement. Far from superseding open account systems or payment instruments like letters of credit (LCs), BPOs are a compelling instrument that corporates can use as a supporting solution alongside transactions under more traditional systems.

As with LCs, this model allows banks with international networks of correspondent banks, like UniCredit, to handle its client's side of the deal and ask a partner based near its client's counterparty to handle the other side. But in utilising a BPO, banks can go one step further – removing risk from both sides of the deal by extending financing to the importer and increasing days payable outstanding, settling the exporter's invoice in the process. What is more, the settlement process takes a maximum of seven days instead of an average of 21 days for LCs.

Crucially, BPOs allow banks to keep their corporate relationships local while managing the cross-border element of the transaction themselves. And by transferring the counterparty risk to regionally-affiliated banks in an efficient, digital process, UniCredit and its regional affiliate are able to offer financing to a much larger number of deals for their clients than before – making BPOs essential to banks' Supply Chain Finance offerings.

In this way, the BPO accounts for local nuances while working effectively in an international context. Such an innovation demonstrates that local expertise can be harnessed in new and innovative ways to provide better results in the modern, increasingly efficient global economy.