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How digital technology is realising tangible benefits in supply chain finance

BCR talks to Adeline de Metz, Anand Pande, Angela Koll, Dominic Broom, and Mark Evans about how technology is not only helping shore up supply chains, but also bring together banks and technology providers

BCR: How has supply chain finance (SCF) evolved over the years, and where does it fit into the broader picture of trade finance and working capital management?

Adeline de Metz, Global Co-Head of Trade Finance, UniCredit: SCF has evolved a lot in the last 20 years. Many consider it to be synonymous with approved payables finance, but a growing contingent – including the Euro Banking Association and the International Chamber of Commerce – see it as encompassing a wider spectrum of techniques for optimising working capital throughout a company and its chain of suppliers. Under this broader definition, supply chain finance has a significant amount of cross-over with traditional trade finance. But it differs in two respects. Firstly, it embodies a shift in approach from product-focused to client-focused. Secondly, SCF uses a much wider range of techniques than traditional trade finance – incorporating any and all tools that can help optimise working capital.

Mark Evans, Managing Director, Transaction Banking, ANZ and a member of ICC Banking Commission's Executive Committee: For larger corporate buyers in particular, supply chain finance is gaining prominence as working capital optimisation continues to be a focus. Yet, while appreciation of the benefits offered by SCF is growing across the supply chain, there continues to be a geographical divergence in take-up from suppliers. More specifically, there appears to be greater acceptance of SCF solutions in European and North American markets than in Australia and New Zealand, for example, where some suppliers continue to remain cautious. This goes to show that supply chain finance still has plenty of room to grow, and, supported by education on its uses and benefits, it will continue to rise in popularity.

Dominic Broom, Member of ICC Banking Commission Executive Committee, and Global Head of Trade Business Development at BNY Mellon: There is often a lack of consensus over definitions and terms associated with SCF. Yet, through education, awareness-raising and increased dialogue around the characteristics and benefits of SCF – for buyers, suppliers and for the health and sustainability of entire supply chains – we can ensure existing and new trade financiers have a clear understanding and consensus on SCF techniques in the market. This is precisely why we suggest global adoption of the suggested "Standard Definitions" terminology.

BCR: How is technology changing SCF?

Anand Pande, Global Product Chair Trade and Supply Chain, Intellect (iGTB), and Founder, GPP: Technology has brought significant efficiencies to the physical supply chain – with governments actively pushing automation through trade facilitation programmes and improving logistical efficiencies at ports through paperless customs clearance schemes. The same cannot be said about the financial supply chain, however, which continues to be plagued and dominated by paper processes. Efforts are ongoing to optimise and accelerate working capital cycles by automating the procure-to-pay and order-to-cash cycles, but the pace of adoption has been relatively slow.

Emerging technologies such as blockchain are still being experimented with, as banks and fintechs look to move beyond multiparty-based closed proofs of concept to something more open and commercially scalable. However, there is more optimism regarding the progress made on the risk mitigation, compliance, due diligence and cost reduction sides of supply chain management, thanks to the application of technologies such as good old OCR (optical character recognition), imaging, robotic process automation, natural-language processing and artificial intelligence.

Dominic Broom: With 68 per cent of ICC Rethinking Trade and Finance Survey respondents identifying supply chain finance and technology as the areas with the highest growth potential for trade finance, there is no doubt that the two have become intrinsically linked. The reasons for this are multiple. Online platforms – leveraging advances in technology – have completely transformed client experiences, bringing greater transactional insight, cohesion, flexibility and security. From a service perspective, it is also driving increased industry collaboration.

Angela Koll, Specialist Trade & Supply Chain Finance, Commerzbank: Technology is also increasing demand for the digital handling of trade, and for faster, flexible and cost-saving processes across the supply chain. The handling of data, rather than paper documents, is a key need, and can be met by the Bank Payment Obligation (BPO). With a BPO, trade data of the physical supply chain (i.e. the data of a purchase order, invoice and the shipment of goods and services) is converted to an electronic ISO standard and automatically matched on a digital platform. On successful matching, the buyer's bank undertakes payment at maturity to the seller's bank.

In addition to the payment undertaking, the BPO offers the opportunity to be financed, and can therefore serve as an enabling framework for SCF. The buyer's bank's undertaking to effect payment at maturity is based on the buyer's creditworthiness: that both secures the payment itself, and provides security for financing by the seller's bank or the buyer's bank in favour of the supplier. Consequently, payment terms can be extended. This helps the buyer to optimise their working capital, stabilise their supply chain, and increase business with their trading partner. It also allows the supplier to take advantage of immediate liquidity without touching their own credit facilities.

Adeline de Metz: The BPO is certainly an excellent option for corporates looking to drive efficiency and risk mitigation in their settlement processes. Crucially, BPOs must be executed on a digital platform from start to finish – ensuring errors and delays don't creep in via manual steps in the process, and enabling corporates to realise the full benefits.

Looking into the near future, new solutions are also being developed to enhance the speed, efficiency and transparency of trade settlement. Blockchain technology is now starting to bear fruit with the likes of we.trade (formerly Digital Trade Chain) promising to improve the protection, management and tracking of transactions by aggregating the processes of whole supply chains on a single blockchain register, accessible via an intuitive digital platform.

BCR: Has technology helped broaden the appeal of SCF, and what opportunities does this present?

Adeline de Metz: SCF has traditionally been the preserve of large corporate buyers and their selected suppliers, but the incoming generation of digital platforms is removing the geographical and financial barriers to participation. More and more small suppliers are gaining access to SCF even when they're based in locations previously too remote for this kind of programme.

Dominic Broom: There is a general consensus among all players that these developments present the opportunity for increased emerging market engagement in global supply chains and, in turn, the global trading system. This could have positive implications for world trade; opening up new trade corridors, presenting opportunities for business and economic growth, and potentially helping to boost global trade volumes.

Anand Pande: SCF is certainly bringing about greater financial inclusion by providing SMEs with access to low-cost capital. However, the benefits of these programmes are limited, as they mainly address the post-shipment financing of accepted invoice flows.

The real need of the hour is intermediating the pre-shipment and providing the finance required to support manufacturing flows of small and medium-sized enterprises (SMEs). The global funding gap, estimated by the Asian Development Bank at USD 1.6 trillion, brings about huge lending revenue opportunities, but fintechs and banks have to reinvent their credit risk assessment models with increasingly powerful technological tools in order to intermediate these flows in a meaningful and commercially viable manner. Technology also dramatically reduces the cost of onboarding suppliers – the majority of which will be small companies spread out all over the world – and has helped treasurers combine liquidity and supply chain management objectives. With negative interest rates predominant in Europe and term deposits becoming taboo with the introduction of Basel 3 requirements, technology platforms offered by fintechs and banks are enabling companies to use their surplus liquidity to fund their supply chains directly.

BCR: So collaboration, not competition, is the way forward?

Anand Pande: Absolutely, fintech-bank collaboration makes eminent sense when it comes to solving issues relating to capital, credit, compliance and client origination. At Intellect, we have been helping banks with our 3R2C philosophy, which focuses the systems functionality on driving revenues and returns, controlling risks and costs, and differentiating through competitive positioning for both them and their clients. 3R2C stands for Revenues, Returns, Risk (3 'R's), Cost and Competitive positioning (2 'C's) and the idea is that a bank's IT system should be built with a view to affecting these five factors – increasing revenue and return, decreasing risk and cost, and carving out a competitive position for the bank's services.

With regulations such as PSD2 (Second Payment Services Directive) ultimately set to force all parties to have open API-based offerings, a collaborative strategy will score over a disruptive one every time.

Mark Evans: As has been well documented in the press, we have seen increased competition from fintechs in the short-term trade asset space over the past few years. Yet, despite their potential to erode the market position of traditional providers, collaboration between banks and fintechs is at a level we have not seen in the past. In some cases, this collaboration may also extend to banks investing capital in technology companies. While there has always been a focus on banks' proprietary platforms, improvement and innovation is essential to ensure that banks can work with third-party platforms if clients require it.

Dominic Broom: The trade finance industry has become increasingly open to engagement with fintechs, as recently evidenced by the many partnerships and collaborations we've seen developing between banks and new market entrants. Partnerships between banks and fintechs are the way forward – providing a route to the market for fintechs, while reinforcing the role and expertise of banks and thereby reducing risk of undermining the market position of traditional providers. While there has been much focus on banks' own platforms, innovation will also ensure that banks can work with third-party platforms, if so required by customers. What's more, by leveraging application programming interfaces (APIs), it is possible for banks to integrate certain third-party offerings into their own platforms. APIs are therefore changing the way in which the industry can work together and interact – to the benefit of clients.

Adeline de Metz: We also welcome this technological change. Banks and technology companies can be fruitful partners because in many cases their respective strengths and weaknesses fit together like a jigsaw puzzle. Technology companies lack the capital to lend, but banks have the funds to fill the gap; banks can be slower to innovate, but technology companies can add value with creativity and agility. At UniCredit, we choose to seek effective collaboration with fintechs to ensure the best possible services for our clients. We recently partnered with a technology firm to provide a client with a bespoke platform for executing numerous different SCF techniques in one place, and we continue to seek out similar partnerships, while supporting promising fintechs via our investment fund, "UniCredit evo".

Angela Koll: The trade industry with its complex ecosystem offers a lot of opportunities for getting engaged in digital innovation and communication. Innovative technologies like Blockchain, Smart contracts, Internet of Things and Artificial Intelligence will accelerate the evolution in trade. Still, it's early days and regulatory standards and frameworks for implementing new solutions in the global market also need to be agreed and published in times to come. For now, we need to make use of solutions already on the market and supported by existing ICC rules. At Commerzbank, for instance, we see the BPO as an important milestone in the evolution of trade's digitisation, which can be offered as a digital solution to corporates and banks now. Yet realising its full potential still depends on greater awareness and sufficient market adoption among banks and corporates.