ROUND TABLE

SCF roundtable: a changing world

In a roundtable discussion held virtually in May 2021, GTR gathered influential senior figures from banks, fintechs and platform businesses to discuss the challenges and opportunities facing supply chain finance (SCF) – including the changing role of data, the growing importance of ESG, and the new frontiers the industry hopes to explore.

Roundtable participants

- **Steven van der Hooft**, founder and CEO, Capital Chains *(moderator)*
- **Maurice Benisty**, chief commercial officer, Demica
- **Angel Bustos**, global head of advisory, trade & working capital solutions GTB, Santander
- **Parvaiz Dalal**, global head payables finance, Citi
- **Kevin Day**, CEO, HPD LendScape
- **Thomas Dunn**, chairman, Orbian
- **Daria Johnen**, global product head, supply chain finance, HSBC
- **Alexander Mutter**, managing director, capital markets, Taulia
- **Tim Nicolle**, CEO, PrimaDollar
- **Colin Sharp**, SVP Emea, C2FO

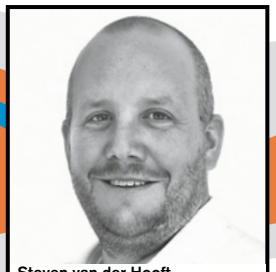
Van der Hooft: In this industry, we're united in the belief that supply chain finance holds the promise of bringing fair access to funding for everyone. In the context of the pandemic, we see this as a financial instrument with huge potential for helping us out of an economic crisis.

Historically, SCF has been most widely available to the larger corporates and a small number of suppliers. Today, we're going to discuss how to make this product more widely available in the mid-market and further downstream, reaching more SMEs and smaller suppliers or distributors, as well as how data can help make that happen, and how ESG will be incorporated to make this sustainable in the long term.

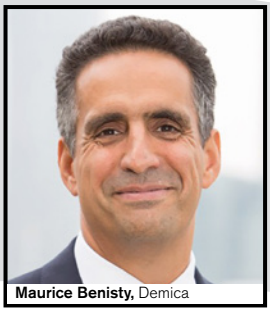
One of the main things all of us in the SCF space have had to talk about this year is the Greensill situation. SCF is, of course, typically characterised by high volumes, low margins and hard work, rather than private jets. Are there lessons for the wider industry from what happened around Greensill?

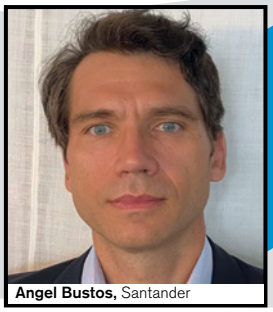
Dunn: As an industry, we very successfully navigated what could have been a disaster for us. Within a few days of Greensill's explosion in March, it was clear and broadly recognised that this was a Greensill problem, not a supply chain finance problem.

At Orbian, we took quite a robust view over the last few years that something was not right at Greensill, and that the market


Steven van der Hooft, Capital Chains


Parvaiz Dalal, Citi


Maurice Benisty, Demica


Angel Bustos, Santander

should be moving with extreme care and circumspection. If something seems too good to be true, it almost certainly is.

I would challenge anyone who thinks their SCF business – no matter how successful – would allow you to buy four private jets. This simply isn't a business that earns those kinds of margins; you are serving the needs of multinationals, usually investment-grade companies, with a piece of basic financial plumbing. That's it.

Benisty: Greensill positioned itself as a technology business, but really it was a specialist financial company with – it now turns out – pretty weak underwriting processes.

The mistakes that are reported in the press are not new, but driven by over-dependence on outsourcing your risk function to credit insurance rather than using it as a mitigant. In some cases there are allegations of fraudulent invoices – exactly the kinds of things we are drilled to avoid in this industry.

Van der Hooft: Today, the majority of this market is probably around payables and, to an extent, receivables finance. How do you see the market moving – is it about providing earlier-stage financing, looking further down the supply chain? How important is it to reach more companies, and in particular more SMEs?

Dalal: There is always a large universe of suppliers that are not being serviced and require funding with cost-effective solutions, whether that's second-tier, deep-tier or purchase order financing. We're working with partners to find solutions that go further down the client value chain to complete their flows, thereby delivering an end-to-end solution to our clients.

There are also new structures banks are looking at more closely. Open account flows are something like US$17tn, but only a portion of that – maybe US$3tn – is addressed through supply chain or invoice financing. That leaves a huge amount of potential untapped.

> "There just hasn't been enough work undertaken to test how we can leverage data to improve credit models and risk decisioning."
>
> **Maurice Benisty,** Demica

There is a collective onus on all of us, rather than competing for the same business, to focus our efforts on bringing that remaining US$14tn to the books, providing financing, and thereby making this business bigger and better.

Johnen: Obviously there is a funding gap, and it's most prominent in the SME segment. However, no financial institution by itself can address that gap everywhere in the world, and so the answer will probably be through innovation – both internally and through collaboration.

An example of collaboration could be the Trade Information Network that HSBC supports, along with five other founding banks. This new platform will help make financing available to suppliers much earlier in the cycle, at the pre-shipment stage, at higher availability and lower cost on the back of purchase order information provided by the anchor buyer, which reduces fraud risk.

I think we will see a lot of initiatives that are aiming to tie together different participants to unlock the availability of credit for SMEs.

Nicolle: What we do is payment against a document, not payment after delivery, and that opens up an enormous amount of international trade for payables financing. We feel there is a widespread acceptance that the traditional SCF product doesn't work as well for emerging market suppliers serving long-distance clients, for example.

If you're a factory in South Asia with a client in the US, your goods might spend 20 to 30 days on the water, then another 15 days before approval comes through, and so you're looking at invoice approval 45 days after shipment. Where are the new territories, the new frontiers, in supply chain finance? I think the new kid on the block is to expand the footprint of the payables product into the international supply chains.

Van der Hooft: A big industry question has been whether we can replace costly, manual processes with access to data. We see huge changes in the availability and usage of data, whether through information networks, from the buyer, the supplier, or general market intelligence – but what is the value of that in providing supply chain finance?

Bustos: In our case, we have a supplier base of around 300,000 around the world, and more than 6,000 buyers using supply chain finance programmes. That's a lot of suppliers, across different sectors and geographies, where clients need to make decisions on discounting or payment behaviours. It's really useful

for both sides to sit in front of our clients as an advisor, and we can do that by building and refining risk models, based on transactional behaviour and historical information. That means having a strong database and using it in the right way.

Nicolle: The principle of SCF is that it's an approved receivable by a buyer, and historically we've left that approval decision to the buyer. That is exactly where data becomes really important. In our case, we will surface around 100-150 data points on an individual trade, from the trade documents, using OCR and machine learning. That allows us to put a heat map in front of a buyer, allowing them to make an early payment decision without having received the goods.

Sharp: Data underpins everything we do. There is a lot of talk about artificial intelligence in SCF to determine the right rate for the supplier; however, we at C2FO believe that this is a highly flawed strategy which will deliver suboptimal results. Through our market-based discounting approach, we deliver real intelligence – not artificial intelligence – tying together the ERP of the customer, with the suppliers telling us what rate is appropriate for them based on their unique circumstances. Rather than using data or AI to second guess the rate a supplier should pay, C2FO has a wealth of data available, including spend data, APR data, payment terms data and so on. All of that informs how we deliver our service to suppliers.

Benisty: To what extent is data being used to develop different credit models, and actually make decisions? Are funders that want to advance capital earlier in the supply chain prepared to make those decisions based on data? That is still a gap; there just hasn't been enough work undertaken to test how we can leverage data to improve credit models and risk decisioning.

If you look at the asset-based loan market, for example, it's still full of manual processes. Real-time availability of inventory and receivables data can be used to improve advance rates as companies grow and protect the lender as sales fall. Whether it is underwriting, portfolio management or risk distribution there are ways to use technology to improve customer experience and better manage risk.

> "Ultimately, despite some negative press coverage and talk about regulation, supply chain finance remains a force for good."
>
> **Colin Sharp**, C2FO

Day: It's not about using data for data's sake. You can use data to identify trends or look at the potential for fraud, particularly in receivables finance. But what we're seeing on the technology front is vastly increased power and connectivity, and with the pandemic, there seems to be a greater propensity to share data. Historically businesses have been shy about sharing financial information, accounting data and so on, with their bank. But it seems like there's a more open mindset now, where companies see the sense in trading data for value.

Colin Sharp, C2FO

Thomas Dunn, Orbian

Van der Hooft: When it comes to ESG goals, sustainability standards and so on, that is clearly and increasingly being included – or at least marketed – in supply chain finance programmes. What is the appetite among corporates to do that? And if ESG is going to be one of the drivers for supply chain finance over the next few years, how are we going to get more parties in those supply chains to play ball?

Mutter: ESG is a game-changer. It means you can't just look at the big suppliers; ESG needs a portfolio approach, where you reach out to all suppliers. Technology needs to play a role there in making outreach more efficient.

Also, it's not just about pricing. Of course you have to set up behavioural incentives and pricing is a key part of that, but in many industries you will see big changes in consumer expectations, where ESG isn't just a nice-to-have but an essential. Today, supplier onboarding is perhaps too economics-motivated. In time there will be a more critical selection criteria from buyers towards suppliers, and it will be an absolute prerequisite that standards are achieved.

Johnen: We recently carried out a survey of our clients, and found out that a substantial majority – around 85% – are thinking about environmental sustainability as a key priority. Nine out of 10 pointed out that post-Covid, ESG is going to be one of the core drivers for their development. So it's not just us thinking about it; it's our clients, telling us that ESG means better resilience, better governance and better performance in the longer term.

Of course, we see finance being used as a lever to support those ESG journeys. We worked with Walmart, for example, on looking to reduce 1 billion tonnes of greenhouse gas emissions from its supply chain, and supply chain finance was used as a lever to achieve this. It's also interesting to note that there is now not only focus on the 'E' of ESG, but on social measures too – this is a field we believe will expand and financiers will have an important role to play.

Dalal: The commitment from the top of the house is to incorporate ESG in product sets, and the work is also happening at the grassroots level.

However, an important data point is determining whether a supplier remains ESG-compliant or not over a period of time. You need to have some kind of ongoing certification process so that you can weed out the non-compliant suppliers – that means taking a systemic approach, being able to segregate your commercial supply chain from your sustainable supply chain through a single platform on a global basis, delivering consistency to your approach, thereby helping our clients achieve their sustainability goals.

Sharp: We are helping customers to go beyond supplier self-auditing, moving to support them to make changes necessary to comply with ESG targets. In the words of one of our customers, that means 'moving from the audit police to the doctor, helping to fix problems'.

You can use SCF as a positive incentive for suppliers to make the necessary changes, providing more favourable rates as they improve their scores. But there is also plenty of data out there that shows those doing well on their ESG commitments benefit anyway, through increased revenues, reduced costs and various other things. We need to go beyond auditing, and encourage corporates to work responsibly with their suppliers, while also using SCF programmes to create real financial incentives for improvement.

Ultimately, despite some negative press coverage and talk about regulation, supply chain finance remains a force for good. We all have a role to play in that, we must act as bastions for our industry, do the right things and drive the ability to get working capital to those who need it.

Bustos: ESG is one of the priorities of our top management; we are taking it extremely seriously. It is not always a matter of asking about the economics of a facility – often, you need to work through the intent with the buyer. That means it's not necessarily about incentivising the buyer with basis points and margins, but about partnering with them, understanding their strategy, and aligning incentives with the goal that they have.

I do believe there will eventually be a capital benefit to sustainable SCF, incentivising sustainable suppliers by offering better rates, for example. But this will take technology too; this has been a game-changer when it comes to our culture, and we still have a lot to learn from fintechs.


Alexander Mutter, Taulia


Kevin Day, HPD LendScape

Van der Hooft: Looking ahead, where are the new frontiers for the supply chain finance product? Is it around continued collaboration, not just between fintechs and banks, but with non-financial tech firms and local presence on the ground? And if so, how is that going to play out?

> "It's a high-performing business, maybe not the most attractive activity in banking with the margins involved, but it's supporting the real economy."
> **Alexander Mutter,** Taulia

Day: We do many system implementations in emerging markets, supporting banks and financial institutions to deliver working capital to SMEs. That can be challenging; in parts of Africa, for example, credit information on businesses is quite poor. There is lots of support out there for buyer-centric programmes, however. These are well-supported by governments, as well as organisations like the EBRD and the IFC, and so there is a lot of opportunity in taking this product wider geographically.

Benisty: Our distribution is broadening beyond banks. Corporates and banks now need more multi-funder solutions, and I see the flexibility to accommodate that being a big driver. However, the issue in our industry to me is less about competition between market participants; it's about that innovation that will lead to capturing more volume. You can differentiate on service to capture more margin, but too much of the industry is based on chasing down price for large customers with vanilla products. Our biggest competitor is nothingness – the untapped potential – and getting there is what gets me excited.

Mutter: An important factor for us has been the multi-funder model. We diversified the sources of funding, and I don't think a single funding provider on its own would have been able to achieve what has been achieved in this period of time.

One major strength of the business is that it's embedded with strong support from buyers. That helps when it comes to onboarding their selected suppliers – using data to make fraud and manipulation harder to achieve – but the historic default ratios of this business speak for themselves. It's a high-performing business, maybe not the most attractive activity in banking with the margins involved, but it's supporting the real economy.

Dunn: The next time a group like this meets, I would be extremely surprised if we do not have at least one of the big card companies around the table. Right now, those companies are demonstrating a great deal of appetite for understanding the conversations we're having, and there are some behemoths that have a natural inclination towards this. The point about innovation driving higher margins in the sector is exactly what they're really good at. GTR