Supply Chain Finance and Technology

Solving the Working Capital Challenge

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INTRODUCTION

For years, business leaders in the corporate banking industry have been seeking ways to leverage technology to make their Supply Chain Finance programs future-ready. The current pandemic has exposed the shortcomings of outdated platforms and has emerged as a catalyst for the transformation of Supply Chain Finance.

Legacy Supply Chain Finance systems were not built to meet the increasingly dynamic supply chain requirements of buyers and suppliers. While these legacy systems are good at performing activities, for which they were prepared and optimized, they lack the agility, integration, and visibility needed for today's fast-changing demands and business conditions. Furthermore, traditional systems employ fairly rigid and entrenched approaches. Modern Supply Chain Finance systems on the other hand, enable innovative, responsive, and continuously improving supply chain finance practices. These systems can provide the analytics; automation, collaboration and seamless integration that you need to streamline your supply chain finance process, shorten time-to-value and, control costs.

Access to working capital is a key and growing challenge for businesses. The challenge is further exacerbated with the impact of the pandemic on credit and financing options, and tougher times likely lie ahead. To plug this financing gap, alternative funding solutions, including Supply Chain Finance have emerged and are growing in popularity. Corporate banks are increasingly looking to turn Supply Chain Finance into a revenue- generating engine.

SUPPLY CHAIN FINANCE FOR A DEMAND-DRIVEN WORLD

The post-pandemic world is going to be different. Temporary trade restrictions, shortages and delivery challenges meant buyers were delaying payments to old partners or quickly adding new suppliers.

While some things will change a lot remains the same. Customers will continue to face working capital and cash flow challenges because of lengthy payment waiting periods. The pressure to operate efficiently and use capital frugally to remain competitive will continue to burden corporate firms.

Banks aren't lending at the same volumes they were before the pandemic and experts believes they may never lend at the same volumes again. At the same time, slow payment increases the demand for smart working capital management. To address their growing working capital needs in an unfavorable financing landscape, companies are increasingly looking for alternative financing methods. Supply Chain Finance has emerged as an attractive option for improving working capital positions across the supply chain.Consequently, banks need to take the onus of enabling corporates to connect efficiently with their financial supply chains in order to optimize their working capital and mitigate risks.

A recent analysis, found Supply Chain Finance is gaining a stronghold globally by delivering more than 50 % of the Global Trade revenue. This figure presents huge business opportunities for banks, as corporates are looking for ways to unlock and optimize their working capital confined in their supply chains.

Benefits

The benefits that come with Supply Chain Finance are profound.

The benefits to the buyer include the ability to::

- Offer a financing option with improved borrowing costs
- Improve days payable outstanding
- Stabilize the supply chain

The Suppliers benefit from the ability to:

- Gain from an alternate source of liquidity
- Accelerate payments
- Reduce days sales outstanding
- Lower financing costs

The Banks gain ability to:

- Acquire new customers - suppliers who gain financing
- Tap new revenue streams from financing
- Explore cross-sell opportunities

CHALLENGES OF SUPPLY CHAIN FINANCE

Despite the growing popularity, there are several challenges in Supply Chain Finance. For many banks, disjointed solutions and outdated spreadsheets are still the go-to tools and, have entailed a lengthy, paper-laden, labour-intensive process. It's not just high costs and revenue loss for both corporates and banks. With orders placed across a range of systems and coming from various geographies, it causes delay in the entire Supply Chain Finance lifecycle, which in turn can lead to disappointed customers.

All these factors combined with pressure from new market entrants, more stringent compliance, KYC checks and AML requirements, drastically impeded the adoption of Supply Chain Finance. Here are some of the challenges that businesses might face on a daily basis:

CHALLENGES	DESCRIPTION	OPERATIONAL IMPACT
Paper heavy processes	Flow of physical paper documents across borders throughout the transaction cycle	• Increase in transaction turnaround time • Handling & storage costs • Risk of losing or tampering important documents
Labor intensive	• Authenticity of paper documents is verified manually • Manual handoffs across fragmented operational processes and IT systems	• Manual checking is subjective & error prone • Lack of standardization across geographies makes it difficult to scale operations • Staff development is critical which may take as many as 6 months to 7 years • High staff turnover and relative inexperience increases operational risks and leads to client dissatisfaction
Stringent regulatory & financial crime compliance	Basel III, Dodd Frank, Foreign Account Tax Compliance Act (FATCA) and AML require banks to invest heavily in systems and procedures to deter, detect and protect from money laundering	• Enhanced due diligence, KYC compliance, Sanctions screening has introduced costly manual checks • Reliance on 3rd party providers like World Check, Sea Searcher, Blacklist check, Defaulters list check increases manual handoffs and turnaround time • Nonstandard reporting processes and formats for adhoc transaction reporting to regulators
Funding	The absence of guaranteed payment due to little or no clarity on the counterparty and absence of payment default rules	• Delayed or no payment

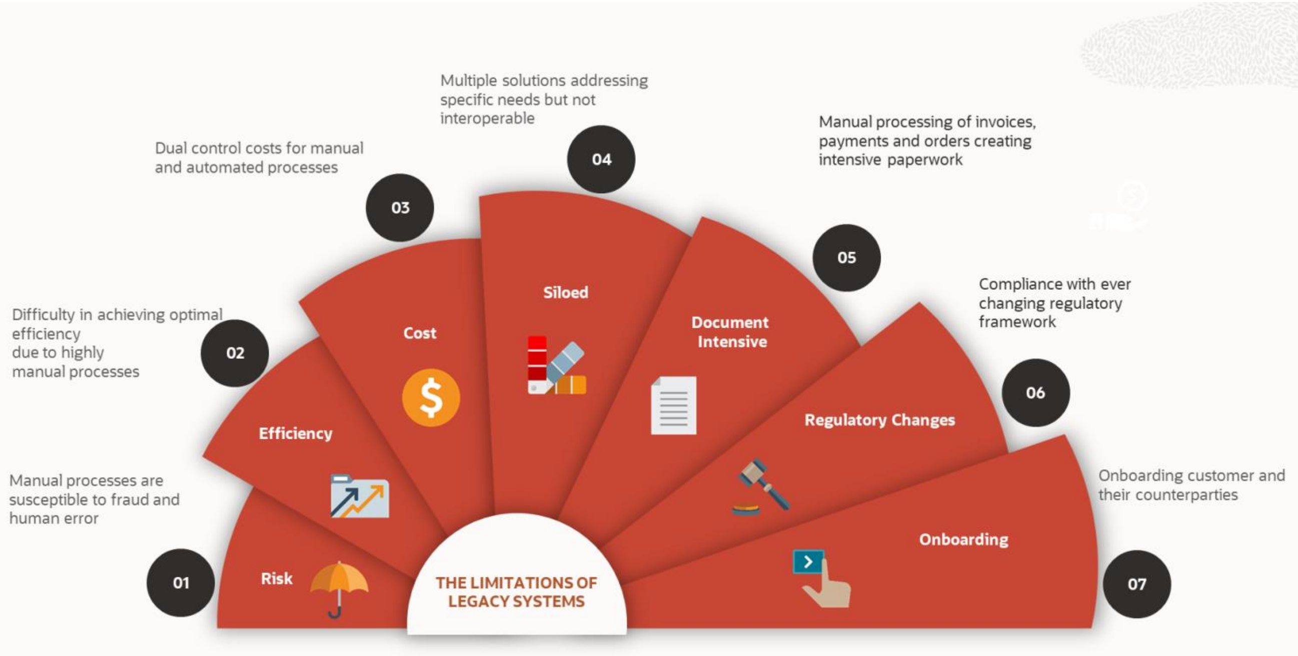
Source: Deloitte Report

THE FAILURE OF LEGACY TECHNOLOGY

Early Supply Chain Finance adopters are finding their once cutting-edge systems aren't nimble enough to keep up with the pace of change. The limitations and complexities of legacy systems tend to cause significant operational challenges in today's global and connected Supply Chain scenario.

- **Limited in the information age**: Legacy systems by nature are rigid, clunky, and complex and this creates challenges around service consistency, and documentation
- **Siloed data**: There are many banks operating on multiple systems to handle different activities of the Supply Chain Finance lifecycle. As these systems have poor integration and interface capabilities, it creates a major disconnect in the flow of data which increases the time required to find relevant information, thereby, hampering decision making
- **Business blind spots**: Lack of departmental collaboration as legacy systems fail to connect Supply Chain Finance solutions with other third-party systems
- **Visibility gaps**: Buyers and suppliers expect transaction data at their fingertips. But, some of the information is likely to be inaccessible or inaccurate
- **Time-to-market and documentation bottlenecks**: Lost documents and process delay will lead to delays in processing invoices and finances
- **Error prone processes**: Manual reconciliation process that relies on spreadsheets is prone to human errors and can increase the risks to loss of revenue and frauds

- **Lack of transparency and controls**: Conforming to external regulatory bodies and internal compliance checks can be a daunting task for banks if the supply chain finance lifecycle processes lack transparency
- **Stuck in the past**: With legacy systems, banks have limited access to emerging technologies like Machine Learning (ML), and digital assistants



EMERGING TECH TO THE RESCUE

Supply Chain Finance has always been complex, requiring the integration of multiple processes, applications, technologies, and collaboration among supply chain participants. Deploying emerging technologies reduces these challenges significantly. It's time to let go of legacy monolithic systems and embrace digital transformation with solutions built on componentized architecture.

Digital transformation in Supply Chain Finance will play a very crucial role in empowering corporate banks to provide supply chain finance services at lower costs and at a higher efficiency level.

The defining traits of a Modern Supply Chain Finance application:

- **Integrated**: Creates more efficient, low-friction supply chain finance processes, shorter time-to-value and provides end-to-end visibility into transactions. Seamless integration across the Supply Chain Finance lifecycle means standalone systems, time-consuming and inaccurate manual processes are all a thing of the past
- **Orchestration**: Technology-based collaboration will empower banks and other entities to make quicker decisions and complete supply chain finance services in shorter times. Future-ready applications provide end-to-end visibility right, from buyers to the supplier to counterparties
- **Agile**: Reacts quickly to market changes with the ability to make continuous, dynamic, real-time adjustments
- **Intelligent**: Leverages Machine Learning (ML) to automate supply chain finance processes that previously required human monitoring and manual intervention.
- **User experience**: Responsive and intuitive, and gives users digital self-service options.
- **Open platform**: Adopts micro services architecture to accommodate upgrades and improvements, and facilitates integration with other applications
- **Digital**: Drives digitization throughout the entire supply chain finance lifecycle that is burdened with labor-intensive paperwork and documentation processes to keep up with the demand-driven world of digital supply chain operating models
- **Automation**: Uses Optical Character Recognition (OCR), Machine Learning (ML) and Natural Language Processing (NLP) technology to convert documents into e-documents without any human intervention

Why should you consider using a Digital Supply Chain Finance system.to replace your legacy system? Consider these benefits:

FUNCTIONALITIES	BENEFITS
Business process automation	Automated process workflows improve task management and increases productivity • Ensures Straight-through processing to reduce operational cost • Eliminates redundant manual processes • Maximizes automation and enables faster fulfillment • Enables real-time visibility into transactions
Connected experience	Seamless multi-channel experience removes all channel barriers impacting customer satisfaction • Provides customers with the self-service ability • Allows use of different access points to begin & complete process • Enables consistency of experience across touch-points
Centralized system	Centralized operations capability enables reuse of customer data & application services • Single, unified system for reverse factoring, supplier finance, payable finance, receivable finance and more • 360 degree view of customer • Ensures capturing only the required data 'one time' • Ensures faster turnaround time
Paperless processing	Enhances operational efficiency and reduces manual errors • Enables faster processing of supply chain finance transactions • Provides greater convenience with ability to set up parameters • Reduces cost and improves the speed of communication
Third-party API integration	Seamless third-party integration for quicker turnaround and collaboration between participants • Enables integration with back-office and front-office applications • Ensures meeting ever-increasing regulatory requirements • Enables parallel processing • Enables Integration with external vendors and credit bureaus to perform customer identification, AML and KYC checks
Seamless onboarding	Faster and more transparent onboarding experience • Allows onboarding a customer and their counterparts along with its basic details
Flexible product configuration	Flexible options to define wide range of product attributes enables banks to enhance customer experience • Enables banks to create different Supply Chain Finance products with several variations on the fly, thereby empowering banks for faster time-to-market • Enhances customer experience as customer preferences are met

CONCLUSION

The need for sustainable Supply Chain Finance programs to support access to working capital for businesses cannot be overstated. Notably, Supply Chain Finance programs balance the disparate needs of both buyers and suppliers. Despite the global trade disruption, the worldwide revenues from Supply Chain Finance grew in the first quarter of 2020, and presents corporate banks with a potentially new avenue for growth.

In this post-pandemic environment, innovation, efficiency and visibility are very critical to success. Without a doubt, the pandemic is accelerating the digitizing of the entire supply chain financing process that was supposed to take years. Digital Supply Chain Finance is fast becoming the go-to IT model for business leaders. It also puts corporate banks in better positions to take advantage of new and future technology enabled through Machine Learning.

When a business considers a technology investment, there is one question that takes center stage: Do the numbers make sense? Studies suggest moving to a modern Supply Chain Finance system, corporate banks can achieve over 70 percent reduction in time for processing invoices and finances. Clearly, the answer is a resounding yes.

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