Working Capital Finance in the Cloud

Make the Shift to the Cloud

January 2021

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INTRODUCTION

The new reality of 2020 has laid bare the discrepancies among business processes and the gaps in the supply chain finance function. And before COVID-19 pandemic disrupting supply chains across the globe, there were shifting global trade agreements, and there was increased buyer and supplier expectations, and there were stifling economic headwinds, and there were margin compressions. Basically, the last few years brought - disruption after disruption – and banks with legacy on-premises supply chain finance applications have had to patch, update, and customize their systems to keep up with ever-changing business needs.

In an increasingly disruptive world, many business leaders have looked ahead to 2021 to figure out how they can incorporate more automation, resiliency, flexibility, and agility into their supply chain finance processes.

Reducing costs and controlling spend have always been the main drivers, and will remain, but in a perpetually volatile world, incumbent banks must shift to a more multi-dimensional value framework that puts equal weight on speed, risk reduction, sustainability and adaptability.

If the recent past has shown us anything, it's that there is a clear need for banks to be dynamic in updating their technologies to cloud based supply chain finance solutions that could make them nimbler and more reactive. The cloud helps banks innovate faster by providing ongoing access to fresh capabilities.

WHERE LEGACY SUPPLY CHAIN FINANCE TECHNOLOGY FAILS

Despite the growing popularity, there's no shortage of challenges facing today's Supply Chain Finance. For many banks, disjointed solutions and outdated spreadsheets are still the go-to tools and, have entailed a lengthy, paper-laden, labor-intensive process. And 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.

If you combine these factors with pressure from new market entrants, more and more stringent compliance, KYC checks and AML requirements for processing supply chain finance applications, then you can see the reasons for slow adoption of Supply Chain Finance. Here are some of the challenges that businesses might face on a daily basis:

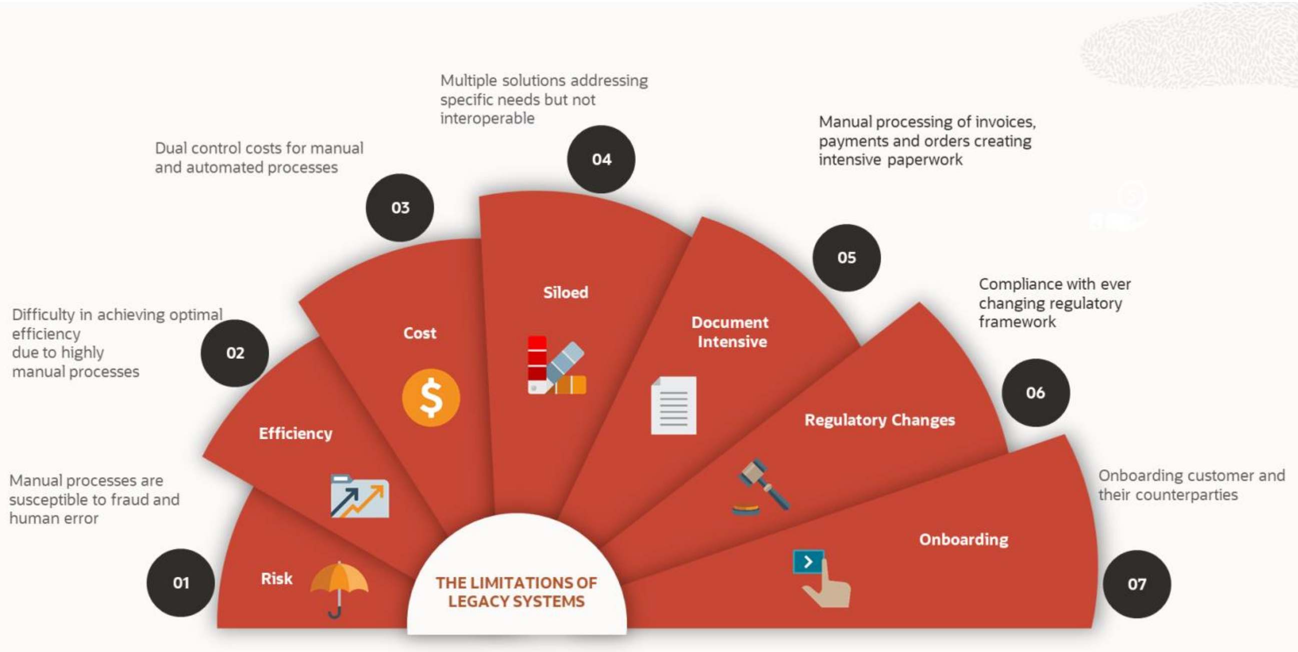
CHALLENGES	DESCRIPTION	OPERATIONAL IMPACT
Paper heavy processes	Flow of physical paper documents across borders throughout the transaction cycle	• Increase in transaction turnaround time • Handling & storage costs • Risk of losing or tampering important documents
Labor intensive	• Authenticity of paper 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

Early Supply Chain Finance adopters are finding that 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



THE ACCELERATION OF DIGITIZATION

Banks have never faced a bigger challenge–or had a better opportunity for transformation - than the COVID-19 pandemic. Transformation 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.Proactive business leaders are relying on digitization across the supply chain finance function to be ready for the future.

If you're figuring out what your business may gain from digitization, here are areas to think about:

- **Agile**: A modern system is able to quickly react to market changes with the ability to make continuous, dynamic, real-time adjustments
- **Intelligent**: The system uses Machine Learning (ML) to automate supply chain finance processes that previously required human monitoring and manual intervention
- **Integrated**: Integration creates more efficient, low-friction supply chain finance processes, shortened time-to-value and provides end-to-end visibility into transactions. Seamless integration across the Supply Chain Finance lifecycle means standalone systems are a thing of the past, along with time-consuming and inaccurate manual processes
- **Automation**: Next-generation systems use Optical Character Recognition (OCR), Machine Learning (ML) and Natural Language Processing (NLP) technology to convert documents into e-documents without any human intervention
- **Open platform**: It adopts micro services architecture to accommodate upgrades and improvements, and facilitates integration with other applications
- **Orchestration**: Technology-based collaboration will empower banks and other entities to make quicker decisions and complete supply chain finance services in a shorter processing time. Future-ready applications provide end-to-end visibility right, from buyers to the supplier to counterparties
- **User experience**: Today's system is responsive and intuitive, and gives users digital self-service option

Supply Chain Finance has always been complex, requiring the integration of multiple processes, applications, technologies, and collaboration among supply chain participants. While there's been a rapid adoption rate for emerging technology in many aspects of corporate banking, the same can't be said for Supply Chain Finance. Corporate banks need to quickly adapt and modernize their Supply Chain Finance technology to keep up with the pace of change. It's time to let go of legacy monolithic systems and embrace digital transformation with solutions built on componentized architecture.

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
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 enrollment	Faster and more transparent enrollment experience • Allows enrolling 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

THE CASE FOR CLOUD

Emerging technologies and practices will underpin the new era of resiliency. COVID-19 is accelerating what was already a seismic shift to embracing working capital finance in the cloud. As banks transition to cloud, they gain the opportunity to transform—increasing pace of innovation, reducing complexity, improving flexibility, and gaining agility to navigate changing market conditions.

Cloud-based supply chain finance has several advantages. Some of the top benefits are:

- **Cost-effectiveness:** Cloud applications drive greater business value through streamlined processes, improved productivity, and reduced overhead and operational costs. Banks can scale up and down as needed- avoiding any over-investment in infrastructure
- **Complete:** e Cloud delivers one solution for your enterprise across HR, finance, supply chain, sales and marketing. B
- **Operational agility:** Cloud solutions reduce complexity. They are agile, adaptable, up-to-date and easily configurable as needs change
- **Efficiency:** Cloud solutions provide end-to-end business flows that enable more automation
- **Increased scalability:** One of the things that sets cloud solutions apart is that banks can scale up and down as needed - to meet the demands of predictable and unpredictable spikes
- **Intelligent:** Data and advanced Machine Learning (ML) are combined to enable users work faster and smarter
- **Data security and privacy:** With cloud solutions, you get you get multilayered security, data encryption, and state-of-the-art data centers
- **Modern experience:** The cloud offers a modern user experience that's intuitive and familiar, enabling users to access the system anytime, anywhere, across any device
- **Subscription-based pricing:** Cloud solutions come with subscription-based pricing that's flexible, scalable for growth, and cost efficient
- **Continuous innovation:** The cloud helps banks innovate faster as updates are delivered automatically, providing new capabilities without undergoing a major upgrade. It also ensures a painless upgrade path as new functionality is deployed regularly via the cloud

Benefits

The benefits that come with working capital finance in the cloud are profound.

- More agility - configure, rather than customize
- Faster innovation - take advantage of automatic updates
- Transformative technologies - embedded intelligence
- Increased productivity - complete transactions in only a few clicks
- Improved data security – data encryption at every level
- Easier integration - easily integrating to other applications

CONCLUSION

Technology is both distinguishing and disrupting businesses in every business function. Supply Chain Finance is no exception. Today's increasingly unpredictable world means that the speed of technological change is faster and your business must be able to adapt to any situation quickly. With endless scenarios of what the 'new normal' might look like, the case for working capital finance in the cloud is even more compelling.

When a business considers a technology investment, there is one question that takes center stage: Do the numbers make sense? The reward for banks that adapt their supply chain finance systems and move to the cloud, however, is not just rapidly improved business outcomes with operational agility but also the significant IT operational savings that come from zero upfront costs and infrastructure maintenance costs. According to research data from a number of sources, by moving to working capital finance in the cloud, corporate banks can achieve about 70% reduction in time and effort for finance processing and invoice management and 25% IT cost reduction. Faster, easier, and more cost effective - it's time to move to the cloud.

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