

Emerging Trends in Supply Chain Finance

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Agenda



Supply Chain Finance & COVID - 19



Evolution of SCF Models



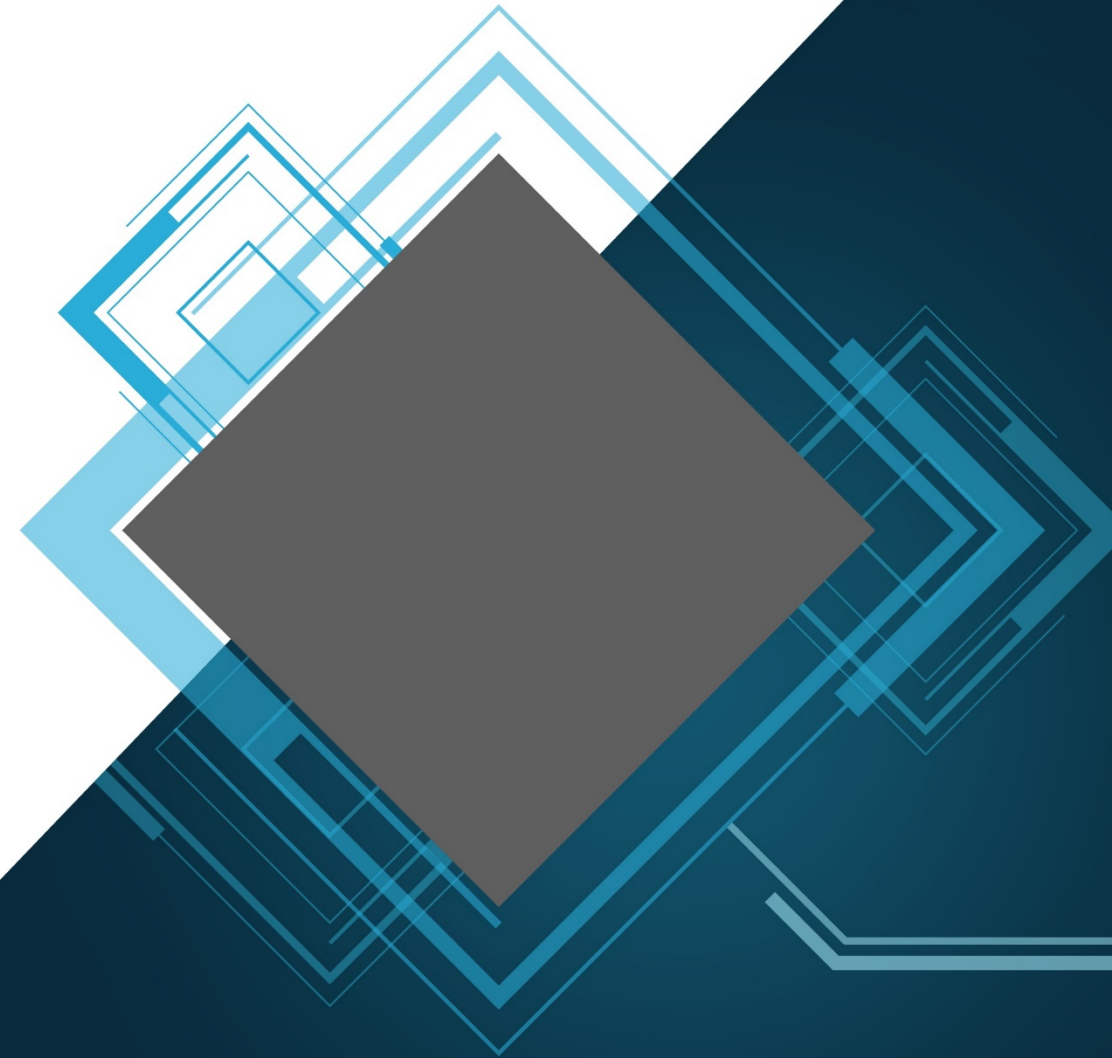
Emerging Trends & Approaches
Globally



Risk Categories while reviewing SCF
Program

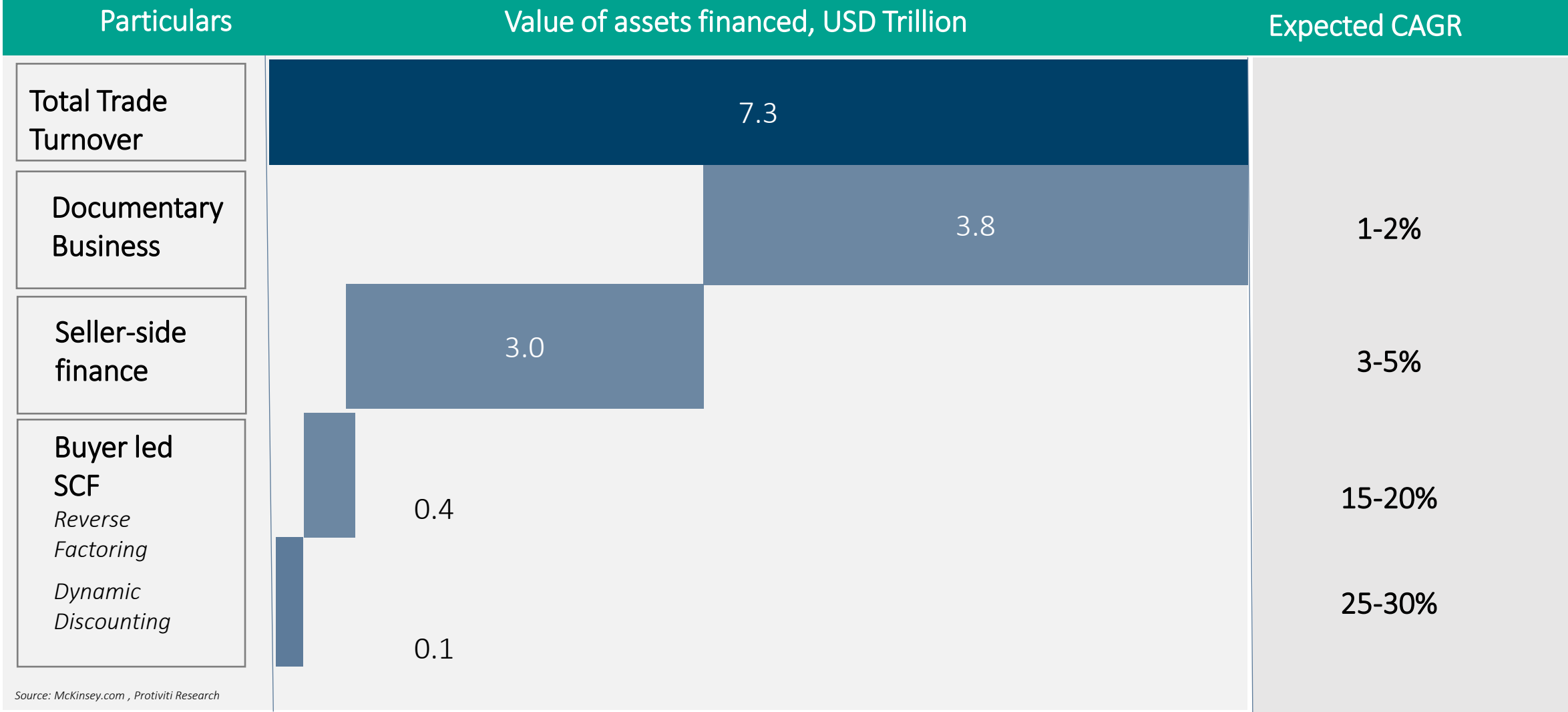


Concluding Remarks



Supply Chain Finance Market Landscape

Increase in open accounts has led the shift of traditional TF instruments to the buyer led SCF programs. Buyer-led solutions are the fastest-growing segment of the USD 7 -8 Trillion trade and supply-chain finance landscape globally; expected CAGR of over ~25%



Source: McKinsey.com , Protiviti Research

Historical Context Of SCF And Typical Approaches

Traditionally SCF programs were centered over large anchor clients but driven by banks; Since 2008 there has been a shift with FinTechs entering the space & revisiting the overall framework

2008 financial crisis, debt market freeze up
Need to bolster liquidity while optimizing working capital

01

Focus on improving the efficiency of Cash
Conversion cycle and partner relationships

02

Need for visibility of underlying trade flows in open
account, enabled by a technology platform

03

Buyer-led approaches

Accounts Payable Centric (Risk on buyer)



Reverse Factoring



Dynamic Discounting

Supplier-led approaches

Accounts Receivable Centric (Risk on Supplier)



Factoring



Forfaiting



Inventory Financing



Invoice Discounting

Need for Supply Chain In The Wake Of COVID-19

Strategic insourcing agenda is the focus of countries globally and corporates in region are considering active involvement to overcome the covid induced setbacks and strengthen the local supplier ecosystem

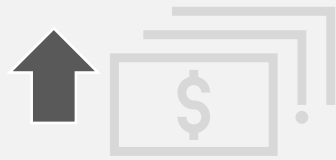
Challenges	 Covid induced restriction on trade activities	 Liquidity & Cashflow Issues	 Stress In Supply Chain	 Cash conservation
	 Increasing importance of strategic sourcing	 Strengthening SME, trade ecosystem	 Need to optimize supplier payment processes	 Demand for Early payment

Hence there has been a significant demand to offer innovative SCF products by Corporates by working with FinTechs to attract suppliers

Increasing Importance Of SCF In The Wake Of COVID-19

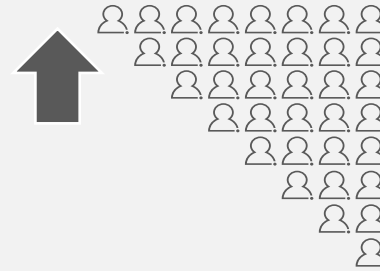
Post COVID, the throughput for several key FIs and FinTechs have increased and gone up by ~\$50 Bn - \$75 Bn on a MoM basis from their SCF programs

140Bn
USD



Firms' Liquidity needs surge to 8 Tr USD

500%



Jan-May 2021 a Development Bank growth in SCF volumes vis-à-vis 2020

200%



Leading SCF platform provider - early payment volume increase month on month in 2020 due to supplier demand for cash



50%



A leading Trade Bank has seen SCF volumes up YOY in Q3 2020

10Bn
USD

in a single month of Q3 2020

Early payments facilitated through SCF Programs by a leading SCF platform

90%

Corporates Plan to increase in-house digital supply-chain talent



93%

Corporate executives plan to increase level of resilience, digitization across supply chain

Source: McKinsey, Protiviti research

Increasing Participation From Actors Across The SCF Value Chain

Current SCF landscape provides opportunities across all segments of actors and there have been innovations across value chain. Significant rise in adoption of SCF programs is observed post covid by buyers, suppliers and the ecosystem players



Why Buyers Adopting SCF



Why Suppliers Embracing SCF



Why Ecosystem Players Interested

1

Increased in-country sourcing; strengthen local trade ecosystem

Lower Interest Rates compared to Market

Strengthening local economic growth, SMEs and suppliers

2

Process efficiency and Improved risk management

Improve Transparency in Supply Chain Management

Digitization of trade value chain, and blockchain enabled documentation

3

Extend the existing credit terms to the suppliers

Better Cashflow Management; Freeing up Bank Credit Facility for Capex & Expansion

Demand and increased adoption in trade credit insurance

4

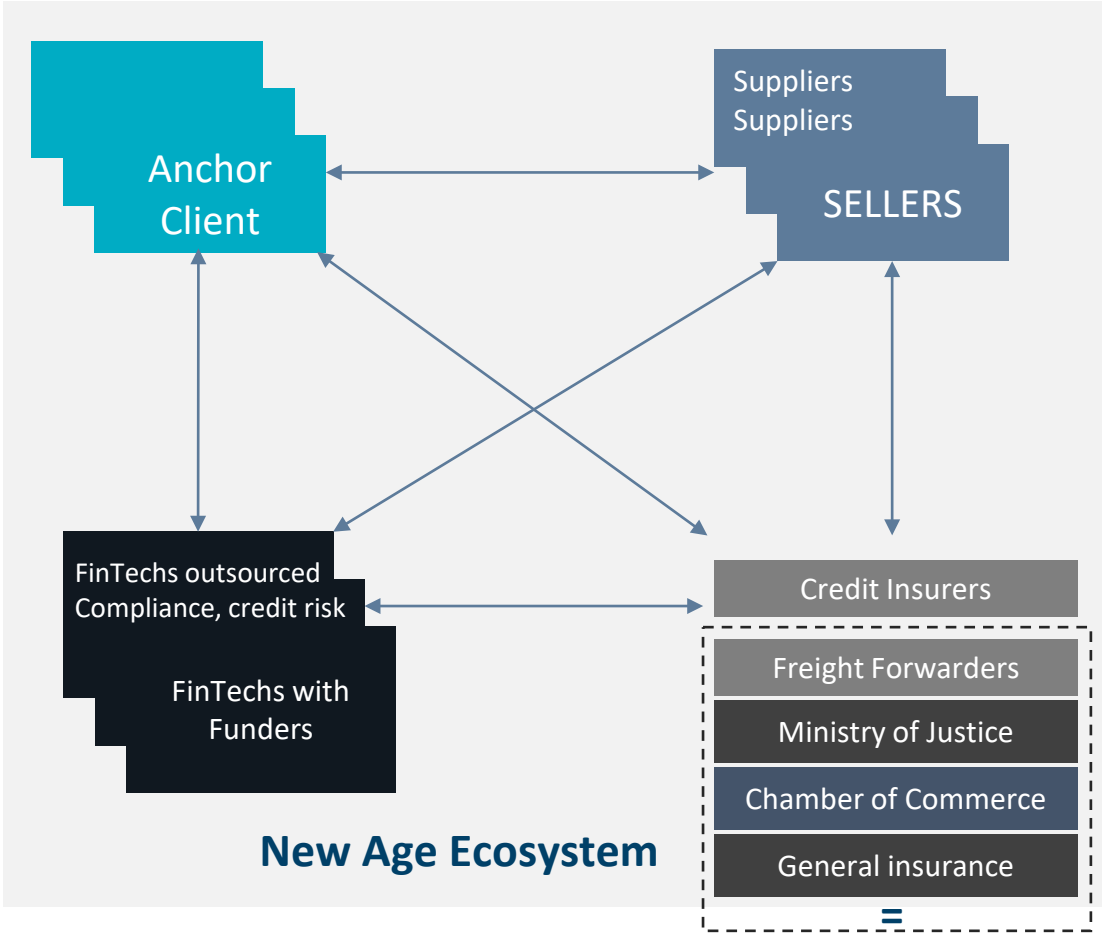
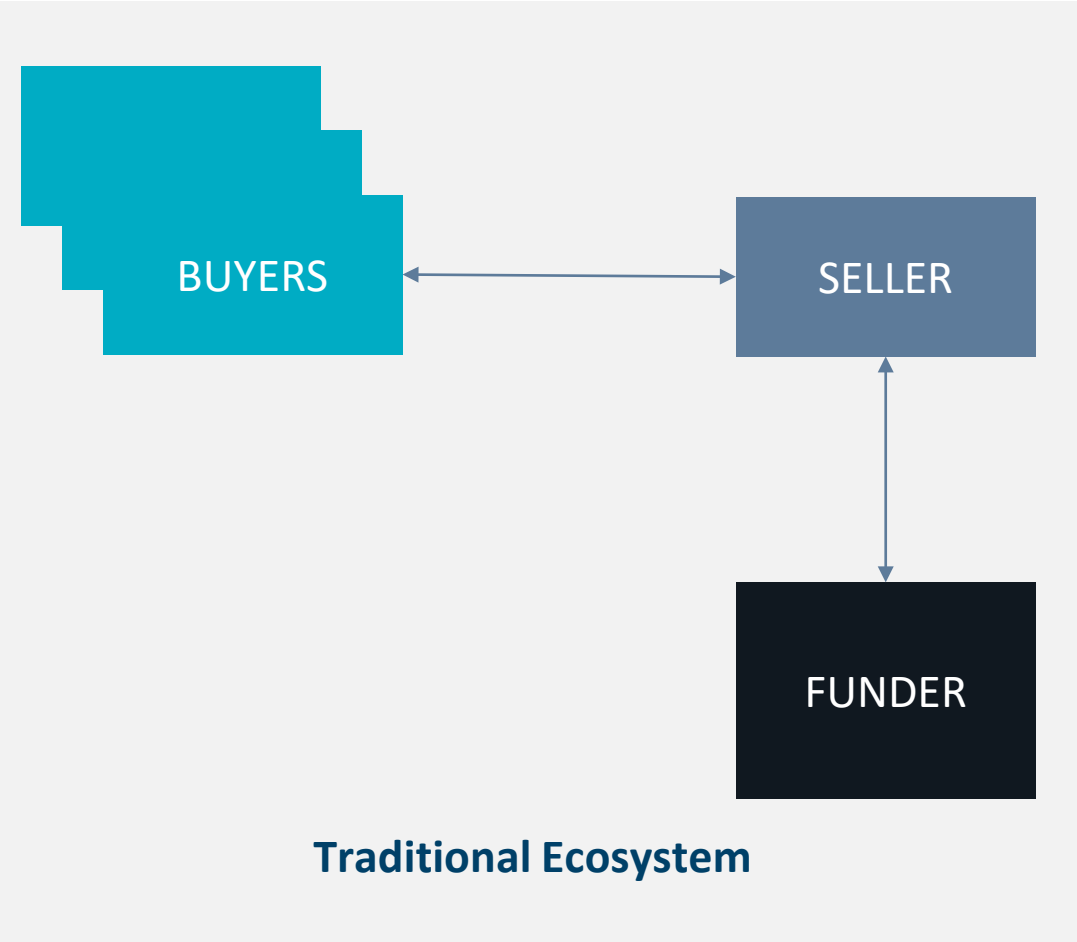
Opportunity to monetize payables

Better Credit Standing / Rating in Market

Significant market potential & expansion of financing through new age FinTechs

Evolution Of Supply Chain Finance Ecosystem (1/2)

With the mushrooming of multiple FinTechs, the legacy supply chain models have evolved over the years to include the eco system players across the value chain enabling complete digitization of the trade and supply chain finance landscape



Evolution Of Supply Chain Finance Ecosystem (2/2)

There are several benefits to participants across the value chain of SCF in process efficiency, optimizing working capital, payment process that is enabling a quicker adoption and change among the eco system players

Benefits to ecosystem players

Buyers

- Optimize WC Ratios
- Optimize Payment Processes
- Alternate revenue stream
- Enhanced Supplier Relationships
- Strengthen Supply Chain

Sellers

- Enhance Buyer & Bank Relationships
- Early access to cash
- Optimize Working Capital Ratios
- Improve Cash flow management



Ecosystem Players

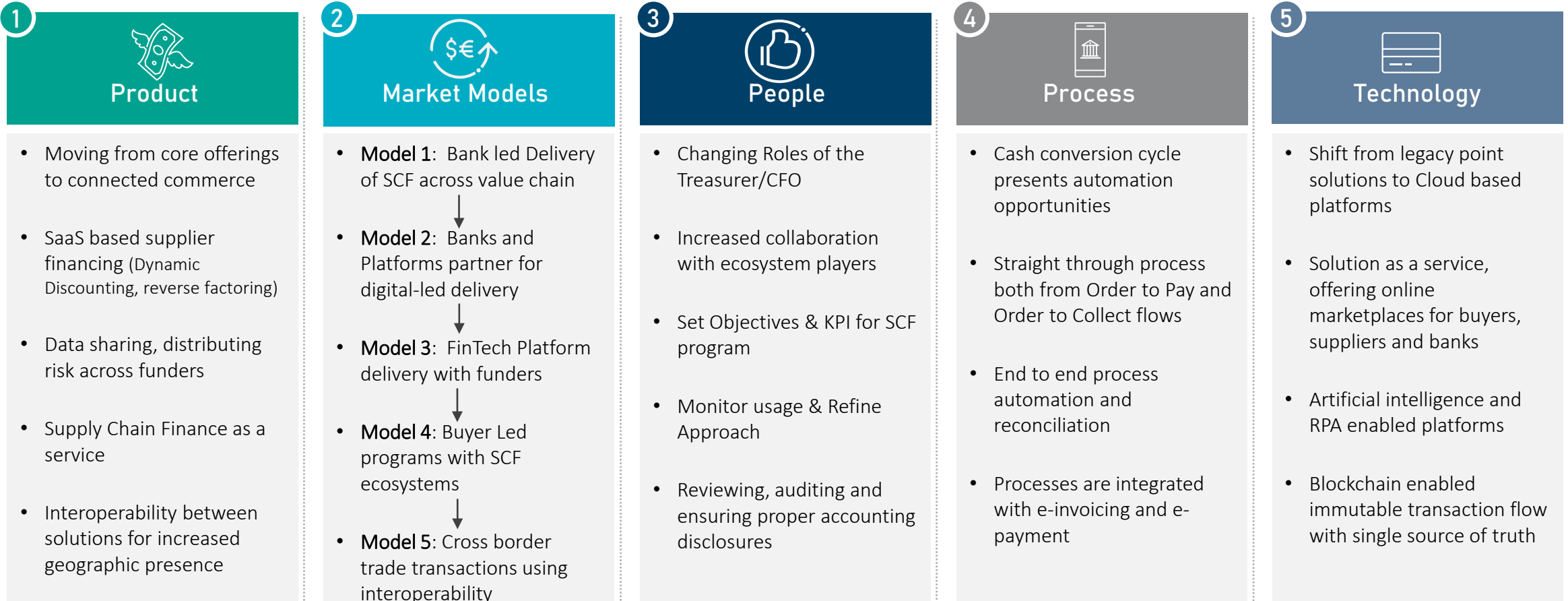
- Full visibility on utilization of credit cover & claims to Trade Credit Insurers
- Immutable single source of truth of documentation through blockchain
- End to end digitization

Funders

- Increased pool of suppliers
- Large value ticket Pos for financing
- Better quality of customers
- Reduced cost of lending

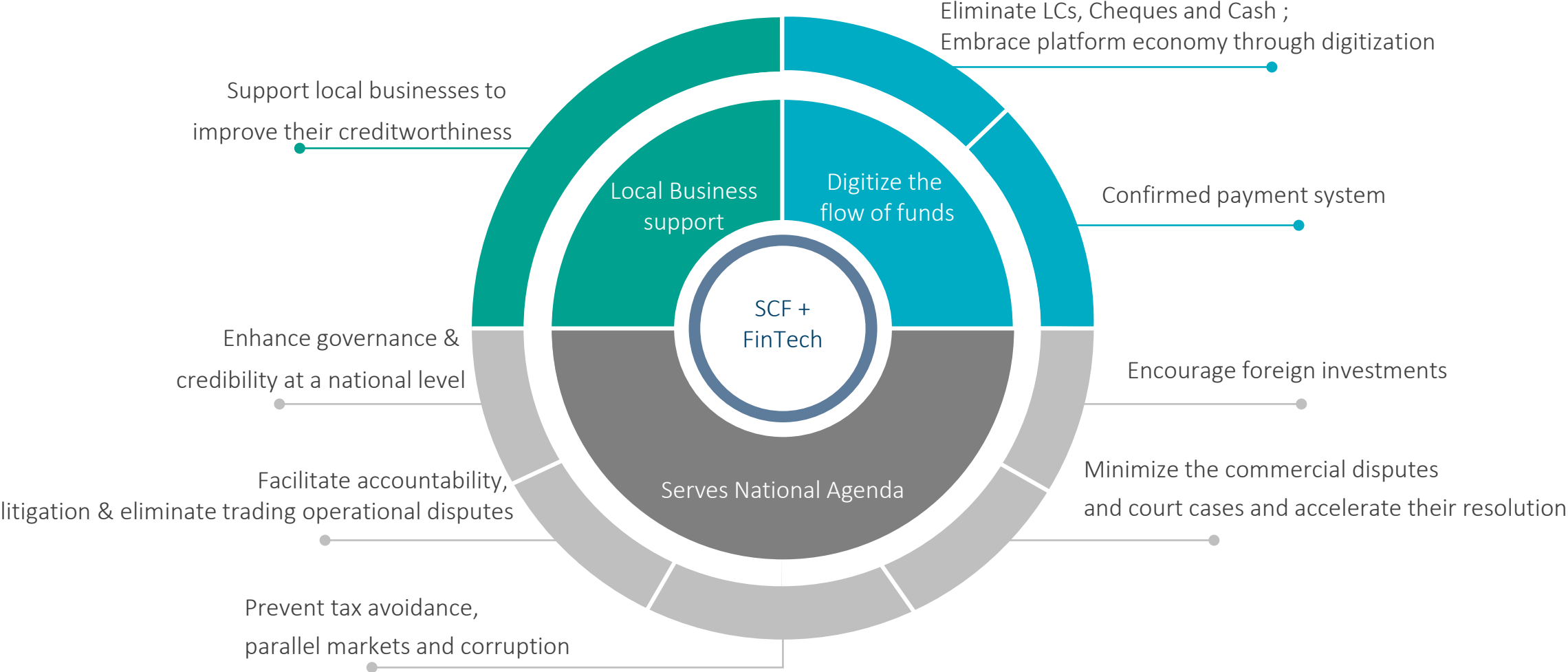
What Are The Emerging Trends In Supply Chain Finance?

Supply chain finance programs have seen significant improvements across product, market models, people, process and technology aiding the transition from legacy point solutions to enable connected commerce



How The SCF Ecosystem Is Helping To Shape National Agenda?

SMEs account for over ~55% non-oil exports in the region. SCF is supporting the increasing need for governments globally and regionally to provide aid to local businesses given the pandemic crisis



What's Happening Globally?

Globally the need for digitization and the buyer led supply chain programs in partnership with FinTechs is rising. There are numerous case studies globally to substantiate the recent trends

Buyer led SCF Programs



SCF FinTech platforms



- Over 30 SCF programs
- Clientele comprising of large corporates (e.g., Honda, Tim Hortons, John Deere)



ORBIAN
Trading on Better Terms

- Over ~ 35 programs
- 4,000 customers in 53 countries and 16 different currencies.

Global News



Mastercard has partnered with Demica to roll out SCF to its B2B customers



StanC and Chinese fintech Linklogis establishing a new SCF marketplace in Asia

What's Happening In The Middle East?

Middle east is not lagging in the SCF trends. There has been a significant push in the region on SCF programs. Federal trade credit insurance firms increasingly provisioning support to local businesses; Large corporates in region are going for buyer led SCF programs



- Large corporates across ME are considering buyer led SCF programs in collaboration with FinTech

- Federal Trade credit insurance providers are taking the lead in provision of financing to local business
- Banks in the region are looking at supporting local businesses in collaboration with Federal TCI providers



- Abu Dhabi DOF partnered with Daman and FAB on a USD1.6bn SCF facility for healthcare sector



- DP World's CARGOES Finance platform for financial institutions and companies seeking trade finance
- Bringing real-time data on trade passing through its digitized global ports and logistics network



- A blockchain-based trade finance platform, which has just gone into commercial production
- Support from CBUAE on project – including one permanent observer from the central bank

Current Gaps In Buyer Led Programs And Resolution

Buyer led programs have limited focus on products related to post shipping, concerns related to mis utilization of PO financing still exist. We are working with large corporates globally and in the region to resolve such gaps and build the SCF strategy & framework to bring enhanced transparency

Current Gaps



Misutilization of PO financing with the buyer led programs



Gaps in misusing funds for anti money laundering; Critical client data at risk



Current buyer led programs offer limited products only focused on post shipment

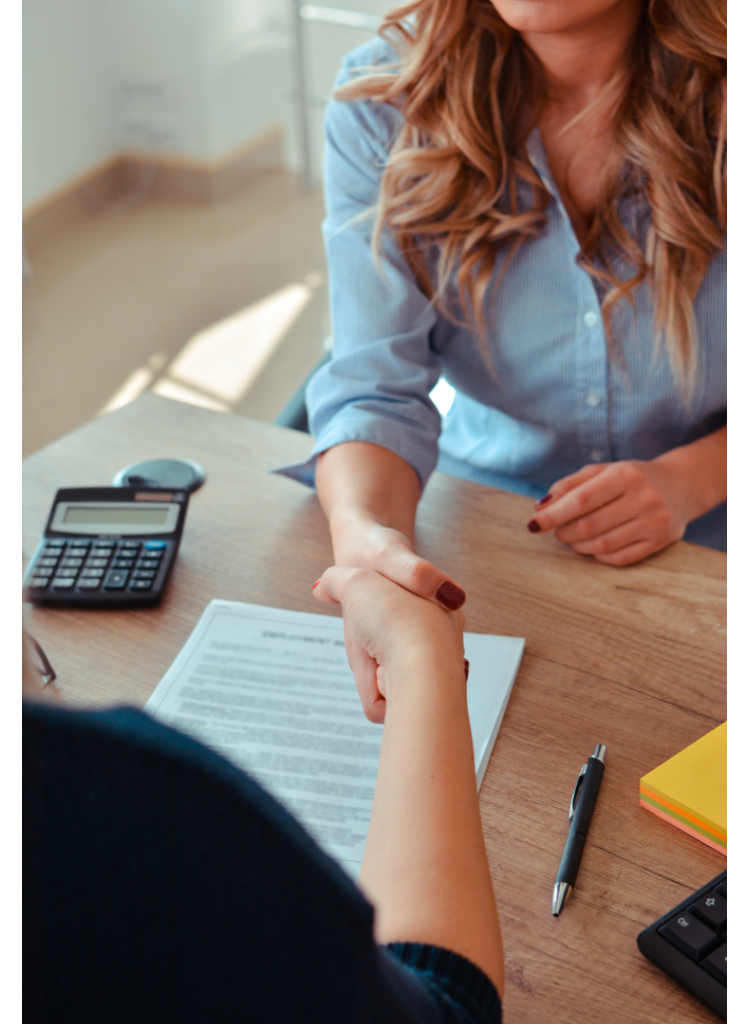
Resolution



FinTechs should stress test to ensure SCF value chain is tracked, & monitored & is fraud proof

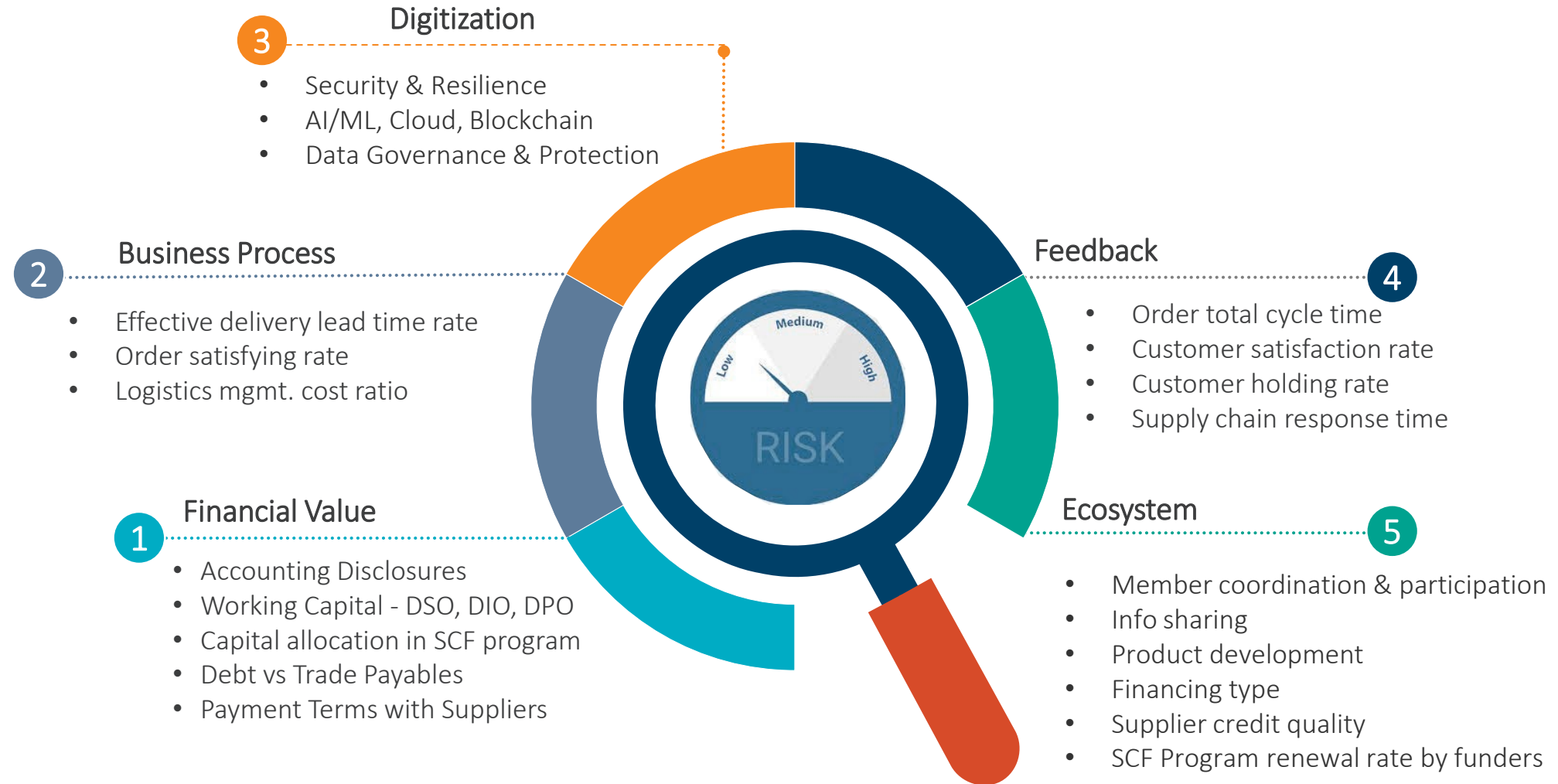


Pre-shipment products as financing and to enhance tracking to minimize potential disruption to supply chain



Risk categories with Supply Chain Finance & its Digitization

As supply chain finance is expanding with more ecosystem player in the foray and increased digitization there are certain inherent risks which must be addressed and mitigated across the value chain



Concluding Remarks... What is in it for Auditors

Post pandemic the need for digitization in SCF has increased multifold and with it also there are increased risks associated which are to be audited. As auditors below are some key elements which are to be considered



Accounting Disclosures & reclassification



Effectiveness of Credit and Payment terms with suppliers



Funders Strength & interest rate arbitrage



Financial health of corporate and key suppliers



Availability of ecosystem partner consent



Trade Credit Insurance & Hedging of credit risk/ cost of capital



Robustness of governance, regulatory compliance & credit assessment framework



Operational and process efficiency



Data hosting, security and privacy



Legal contracts & tamper proof documentation



Questions?

Thank You