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INEXORABLE CHANGE FACING SCF DISTRIBUTION?

Written by Michael Bickers, BCR Publishing, October 2023

Supply chain finance (SCF) is having to respond to change on many fronts all at the same time. This was a key theme underlying a discussion by a panel of industry experts at the recent conference of the International Trade and Forfaiting Association (ITFA) in Abu Dhabi. These changes pose many challenges. The conference also examined the changes that are afoot in the way that banks distribute their trade assets.

Reflections on supply chain finance

A key development for SCF is that it has become more widely known, but has it become more accessible? Marina Narganes, Head of Distribution and Sales Strategy, Triterras, said that it had indeed become more accessible, but that there was still a lot of work to be done. She explained: "Having worked with a number of platforms and seen them at first hand I have noticed that more and more banks are pondering how to work with platforms." Their caution is only natural, she says, "because the platforms have to have the reach in terms of their origination and they need the technology to make this whole process easier." They have the capital to deploy to make the whole process more competitive and "they have all the pieces that they need in place," but there are still challenges.

Viacheslav Oganezov, CEO and Co-founder, Finverity, pointed to a second and fundamental aspect of the SCF arena today. He said: "The issue is capability. The capability gap is huge. A bank might have the ability to create and manage SCF programs, but the sheer volume of data and compliance requirements makes it difficult to run the programs. You can solve this to some extent, but a lot of work needs to be done to make these operations smoother."

Angel Blanco, Managing Director, Head of Platforms Solutions, Demica, confirmed that demand for SCF services is increasing. He said: "We are seeing more corporates interested in SCF, and seeing more funders interested in it as well." He added: "What we are doing at Demica is making technology more accessible to banks."

Marina Narganes commented: "I think platforms are in the position where they can implement change, we can provide all the technology, streamline the processes, the due diligence and so on. The technology is amazing, it acts as a complement to what already needs to be done." She highlighted a central issue, which sometimes in these kind of discussions can be overlooked, which is the need to make these programs profitable. The task, she said, is to use technology in such a way that "we can collect all the information we need and meet all the requirements expected of us and make the profit more quickly. That is the challenge."

Another challenge is KYC, which is becoming more of a challenge as supply chains grow more complex and are ever changing. This was emphasised by Olivier den Tex, Unit Manager Supply Chain Finance Marketing, Credit Europe Bank. The task of complying with KYC while implementing the onboarding process generated a lot of discussion. As Viacheslav Oganezov said, a way needs to be found to make the collecting of data and putting it into the workflow a lot smoother and faster. There was an inevitable consensus about that. At the end of this discussion, one question hung in the air: "Can you outsource your KYC while you do the onboarding?' One panellist argued the case for this, but there wasn't time to develop that comment further.

Bank to bank distribution

Bank to bank – and alternative investors – distribution is also changing rapidly, and the need for this as indicated in the ITFA program has never been stronger. As it pointed out, innovations in documentation and digitalisation as well as new investors are changing the landscape.

Clarissa Dunn, Editorial Director, Marketing, Deutsche Bank, asked: “How can distribution flow scale? ”She referred to research by KKR (a US global investment firm that manages multiple alternative asset classes) which set out three conclusions:

* Banks are the largest and the best originators, and, as a consequence, they have gathered a wealth of data that institutional investors could use to drive funding decision-making algorithms.

* Institutional investors do not represent new competition for banks but want to become real partners in the originator-and-distribute model. This should ease to establish data-sharing agreements.

* Transparency – though data sharing – on assets such as credit risks, regulatory compliance such as AML and ESG need to be continuously enhanced to scale the market.

In this context the private ABF market is an important element. Research by KKR has shown that the ABF market is a large asset class that reaches across many different segments of the economy. It says that the ongoing disintermediation of traditional bank financing and technological innovation have spurred the rapid growth in the private ABF market in recent years. This market was globally worth USD 3tn in 2006, and climbed to USD 5.2tn in 2022, and will according to KKR estimates in October 2022 reach USD 7.7tn in 2027.

The effect of all these developments on global trade is immeasurable. They are likely to transform not only the financing of global trade but also global trade patterns as well. And then there is the opportunity to help close the all important trade finance gap which according to the Asian Development Bank is still widening having reached USD 2.5tn in 2022.